

Weekly Economic Commentary – Oct 4, 2015

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Markets

Stock markets displayed a divergent performance: in the US and emerging markets they gained, while in Europe and Japan they lost ground. However such performance is largely due to the perverse reaction to dismal US payroll figures, as many investors are convinced that a weak economy will induce the US Fed to keep rates at zero, hence further inflating the asset price bubble. Regional markets were mixed in response to erratic energy price movements. Major FX pairs were largely stable, but emerging markets currencies lost further ground. Oil prices were slightly higher after a US inventory report, which showed that US oil demand increased 1.5% yoy, but were broadly stable compared to a week ago. The jump in gold prices after the US payroll data failed to offset the losses earlier in the week.

Global Developments

US/Americas:

- **US non-farm payrolls** grew by a disappointing 142,000 in Sept with the Aug number revised downward to 136,000. The unemployment rate was unchanged at 5.1%.
- The **US ISM manufacturing index** declined to 50.2 in Sep from 51.1 in Aug, slightly lower than expectations. Production index declined to 51.8 from 53.6, the new orders index to 50.1 from 51.7, and the employment to 50.5 from 51.2. New export orders remained in recessionary territory at 46.5.
- US Congress reached an **agreement to fund the government** for two months, ending a political game on the financing

of Planned Parenthood that threatened a shutdown. The saga will restart in December with a new Republican leader after the resignation of Boehner as Speaker of the House.

- **New orders for US manufactured goods** fell -1.7% mom in Aug, after a paltry 0.2% increase in Jul. Orders for durable goods plunged -2.3% mom.
- **US Personal income** grew by 0.3% mom in Aug vs 0.5% in Jul. Disposable income rose by 0.4%, down from 0.5% in Jul. The personal consumption expenditure deflator was unchanged mom in Aug.
- **The Case Shiller Home Price index** of the 20-city rose 5% yoy in Jul but on a seasonally adjusted basis it inched down -0.2% mom in Jul.
- **Initial claims for unemployment benefits** increased 10,000 to 277,000. The four-week moving average dipped by 1,000 to 270,750.

Europe:

- **Euro zone inflation** fell to -0.1% yoy in Sep, following a 0.1% increase in Aug, due to lower energy prices. The five-year forward breakeven inflation rate has fallen to 1.7% yoy.
- The **euro zone's unemployment rate** was 11% in Aug, the same as in Jul, marginally better than the 11.5% recorded in Aug 2014.
- **Euro zone's economic sentiment indicator** improved in Aug to 105.6 from 104.1 in Jul.
- **Euro zone producer prices** declined -2.6% yoy in Aug, following a -2.1% drop in Jul, driven by a drop in energy prices. **France's PPI** fell -2.1% yoy in Aug following a revised -1.4% decrease in Jul. **Italy's PPI** fell -2.9% yoy in Aug, following a -2.3% decline in Jul.
- **Germany's unemployment rate** remained at 6.4% for the sixth consecutive month in Sep.
- **German retail sales fell** -0.4% mom (+2.5% yoy) in Aug

following a revised 1.6% rise in Jul.

- The **Italian government's fiscal deficit** improved yoy in Q2 2015, narrowing to EUR 3.7bn from EUR 4.4bn in Q2 2014. The fiscal deficit fell to 0.9% of GDP from 1.1% thanks to higher revenues.
- **Spain's fiscal deficit** surprised on the downside and narrowed to EUR -1.3bn in Aug, down from EUR -3.1bn in Jul.
- **UK net lending to individuals** climbed by GBP 4.3bn in Aug, up from the revised GBP 4bn increase in Jul.
- The **UK Nationwide Housing Price Index** rose 0.5% mom (3.8% yoy) in Sep, following a 0.4% mom (3.2%) increase in Aug.
- **Russia is in full recession: GDP** declined -4.6% yoy in Q2 after a -2.2% drop in Q1.

Asia and Pacific:

- **China's official PMI** came better than expected at 49.8 in Sep, from 49.7 in Aug, driven mainly by output and new orders, but growth stabilization remains elusive.
- The **Reserve Bank of India** unexpectedly cut the official interest rate by 50 bp to 6.75%. The cumulative rate cuts in 2015 has totaled 125 bp. The RBI lowered its growth forecast, stressing that it would be a very odd time for the US Fed to start a tightening cycle.
- The **Bank of Japan's quarterly Tankan business confidence index** for large manufacturers fell to 12 in Q3 from 15 in Q2.
- **Japanese Tankan inflation survey** showed that 1-, 3-, and 5-year outlooks for CPI were all down, as were all outlooks for sales prices of companies' own products. Despite massive monetary injections by the BoJ, corporate expectations for inflation have clearly weakened.
- **Japan's industrial production** fell -0.5% yoy in Aug., following Jul's -0.8% drop.

- **Japan's retail spending** rose 0.85% yoy in Aug, losing steam vs the 1.8% growth in Jul.
- **Japan's housing starts** continued growing by 8.8% yoy in Aug., up from Jul's 7.4% gain. Land tax return and rising house prices are main accelerators of this growth.
- **South Korea's inflation** remained at 0.7% yoy in Aug, same as Jul.
- **South Korea's industrial production** rose 0.3% in Aug, reversing a -3.2% plunge in Jul.
- **Thailand's industrial production** collapsed by -8.3% yoy in Aug, following a -5.3% drop in Jul. **Thailand's private consumption** declined -1.4% yoy in Aug, after a slight recovery of 2.1% in Jul. Political uncertainty remains a key factor in curbing spending.

Bottom line: The data from China underline that the chance of a hard landing is markedly increasing with severe repercussions already spreading to the rest of Asia. The World Trade Organisation (WTO) warned that China's slowdown has impaired the global recovery, and as a consequence, lowered its forecast for the world's merchandise trade growth to 2.8% in 2015, down from its previous estimate of 3.3%. The only bright spots in the global economy are private consumption and real estate in the US, but they are not sufficient to revitalize the engine of growth. The balance of risks in Q4 is markedly on the down side with no catalyst for a rebound in sight. The earnings by Alcoa next week will kick off the reporting season for Q3: unless the numbers beat expectations equities are unlikely to invert their downward trend.

Regional Developments

- **Bahrain** is planning to issue an **international sovereign bond**; while a request for proposals has been sent to banks, it is likely that the bond (not confirmed whether conventional or Sukuk) would be USD-based.
- **Egypt** expects to generate about EGP 98.5bn in **additional**

revenue this year, according to the Finance Minister, due to legal and economic reform, with the bulk of the added revenue (EGP 31bn) coming from VAT implementation alone.

- **Money supply**, or M2, in **Egypt** was up 16.8% yoy to EGP 1.82 trillion in Aug.
- **Egypt's imports** from five countries – China, USA, Germany, Turkey and UAE – grew by 24.5% yoy to EGP 90bn in Jan-Jun this year. Egypt's imports from China surged by 54.5% to EGP 34bn while from UAE was up 24% to EGP 6.7bn.
- **Iraq's oil exports dipped** to 3.052mn barrels per day (bpd) in Sep from 3.078mn bpd the previous month. Revenues reached USD 3.6bn from Sep sales, with the oil sold at around \$40.3 per barrel, revealed the oil ministry.
- **Oman's** Ministry of Finance announced subscriptions for the first issue of **sovereign Rial denominated Sukuk** with a 5-year tenor.
- **Private deposits** with **Oman's** commercial banks at the end of July 2015 rose 8.8% to OMR 11.7bn from OMR 10.76bn in the corresponding period of 2014. The breakdown shows time deposits worth OMR 3.18bn, savings deposits OMR 4.3bn and demand deposits OMR 4bn. The rate of foreign currency deposits to total deposits was 11.7%.
- Total **electricity generation** in **Oman** in the first 7 months of 2015 increased 12.9% to 18,884.3 GWh from 16,730.2 GWh in the same period last year. Water consumption also increased 6.2% to over 190.5 m3.
- The **total value of real estate transactions** in **Oman** surged 53.2% to OMR 2.94bn during Jan-Aug 2015 from OMR 1.91bn in the corresponding period of 2014, on the back of growth in mortgages, up 79.6% to OMR 2.05bn from OMR 1.14bn a year ago.
- **Qatar** recorded **GDP growth** of 4.8% yoy in **Q2** this year (Q1: 4.1%), with mining and quarrying up 0.9% yoy (0.1% qoq) and rest of the economy up 9.1% yoy (0.9% qoq).

- The **Qatar Investment Authority** has committed to spend USD 35bn in the US over the next five years, diversifying from its previous focus on European investments.
- **Qatar's** central bank in its Financial Stability Review revealed that the “modalities for maintenance of **countercyclical buffers** are being worked out and are expected to be implemented in 2016”.
- **Qatar's investment income** rose 14% yoy to QAR 111.8bn in the 2014/15 fiscal year, as per data issued in the central bank's annual report. Development expenditures decreased to about QAR 62.6bn, or 29.4% of the total public expenditure for the fiscal year.
- According a new report issued by Samba Financial Group, **Qatar** is estimated to witness **credit growth** above 10% this year and next despite tighter banking sector liquidity. Furthermore new contracts worth USD 30bn would be awarded in 2016, as part of the FIFA World Cup preparations.
- Citigroup and Ashmore Group have received permission from the **Saudi** regulator to **invest directly** in Tadawul. Reuters reported, quoting a source, that a total of six institutions have now been given licences (HSBC Holdings was issued a license in Jun). The Capital Market Authority has not released the names of licensed institutions.
- Gross premiums in **Saudi Arabia's insurance sector** could rise by nearly 25% to over SAR 35bn in 2015, supported by tariff increases on the main insurance lines of group medical and motor, according to S&P.
- Saudi Ministry of Labour reported a 76% yoy increase in the number of **Saudi women** being employed in the **private sector** to 466,000 during the current Hijri year.

UAE Focus

- **UAE** lowered **petrol prices** by around 8.7% in Oct,

reflecting weaker global oil prices; meanwhile, domestic diesel price will rise to AED 1.89 this month from AED 1.86 in Sep.

- **UAE** ranked 17th in World Economic Forum's **Global Competitiveness Index 2015-16**, thanks to high levels of openness to trade and investment (fifth on foreign competition), welcoming business environment, efficient labour market, and the presence of sophisticated businesses among others.
- **Dubai** witnessed about 670k **visitors** in the Emirate around **Eid** through land, sea and air ports (between Sep 22-26), as per the General Directorate of Residency and Foreigners Affairs.
- **Passenger traffic** at the **Dubai** airport rose 9.5% yoy to 7.28mn persons in Sep, bringing the year-to-date number to 52.3mn (+12.4%). The heaviest traffic was on routes to the Indian subcontinent and the UK.
- Given the congestion at the **Dubai** international **airport** – around 1,000 flights a day with traffic at its peak between 10pm and 2am when it operates at 93% of capacity – some airlines are “seriously considering” the new Al Maktoum airport as a viable alternative, according to the CEO of Dubai Airports.
- **Abu Dhabi airport** welcomed over 2mn passengers in Aug, up 17.4% yoy, and the highest number of passengers to have used the airport in its history.
- **UAE** featured among the top 10 countries attractive for **expats** globally, revealed the HSBC Expat Explorer 2015 survey, with the country's promising entrepreneurial environment, job prospects, better salaries, generous benefits packages, and a greater quality of life working as pull factors.
- Dubai ranked top in the **Muslim Travel shopping index** 2015, released by MasterCard and Crescent Rating. Dubai scored 52.8 for overall shopping expenditure and 88.1 for Muslim visitor shopping expenditure. The emirate also scored 80 for halal dining options, 60 for

accommodation and 100 for ease of access for prayer places.

Media Review

Saudi Arabia offloads some international assets

<http://www.bloomberg.com/news/articles/2015-09-28/saudi-arabia-has-withdrawn-billions-from-markets-estimates-show>

As the global economy slows US construction and consumption hold up

<http://www.bloomberg.com/news/articles/2015-10-01/we-just-got-the-perfect-snapshot-of-the-global-economy>

Coming soon: a hard drive in our brain to store memories

<http://www.ft.com/intl/cms/s/2/d47fb658-676c-11e5-a57f-21b88f7d973f.html#axzz3nIeuRXeu>

The Middle East meltdown & global risk: Roubini

<https://www.project-syndicate.org/commentary/middle-east-meltdown-global-risk-by-nouriel-roubini-2015-10>

“The most effective development program in history”? Give money to entrepreneurs

<http://qz.com/516040/the-world-bank-says-giving-money-to-entrepreneurs-might-be-the-best-jobs-program/>

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