

Weekly Economic Commentary – Oct 11, 2015

Markets

Stock markets were once again swept by the conviction that bad macro news are good for asset valuations because they indefinitely prolong the ultra-loose monetary policy stance. China's market reopened from a week-long break with a 3% jump pulling emerging markets which shot up almost 7% and all other main bourses. Regional markets (except Bahrain and Morocco) also rose in the wake of such ebullience and a firmer oil price. The dollar fell sharply in the currency markets on major crosses; but the noteworthy development comes from China: the central bank fixed the renminbi at its strongest level since Aug at 6.3505 per USD. Brent and WTI rebounded strongly within striking distance from a 3-month peak. Gold climbed about 1% on Friday in a belated reaction to the dovish US Fed minutes and closed the week on a perky tone although off the intra-week highs.

Global Developments

US/Americas:

- **The minutes of the Sep FOMC meeting** suggest that the decision to delay raising rates was not close. The majority of Fed officials anticipate raising rates this year but they also suggest that inflation is key and that it needs to move toward the central bank's target. Fed officials are worried about the appreciation in the U.S. dollar and its disinflationary forces.
- **US ISM non-manufacturing PMI** fell to 56.9 in Sep down from 59 in Aug and below market expectations. It was the weakest growth in the services sector since Jun as business activity, new orders and prices were weak while

job creation went up.

- **US initial claims for unemployment benefits** dropped from a downwardly revised 276,000 to 263,000 a level last seen in late 2000. The four-week moving average fell 3,000 to 267,500.
- **US wholesale inventories** rebounded slightly in Aug by 0.1% mom vs Jul's -0.1%. The inventory-to-sales ratio rose to 1.31.
- **The US trade deficit** widened to USD 48.3 bn in Aug, a 15.6% increase from the prior month. Excluding a USD 52.2 bn deficit this spring due to a West Coast port labor dispute, this deficit was the highest since Mar 2012.

Europe:

- **European Union leaders** reportedly discussed whether to allow Eurozone states to run **higher deficits** to cope with the costs of the **migrant and refugee crisis**.
- **Jeroen Dijsselbloem**, announced that **Eurozone governments** agreed to cap annual debt service for **Greece** at 15 % of GDP.
- **German manufacturing orders** unexpectedly dropped -1.8% mom (-2.2% yoy) in Aug, after a -2.2% mom (-1.5% yoy) decrease in Jul. **Germany's manufacturing PMI** in Sep fell to 52.3 from 53.3 in Aug, still pointing to buoyant output growth.
- **German exports** collapsed -5.2% mom in Aug, a record since Jan 2009 in the acute phase of the Great Recession. Imports slid -3.1%. Exports are still up 6.6% in the first eight months of 2015 compared with the same period in 2014, while imports are up 3.5%. **Germany's trade surplus** narrowed to EUR 19.6 bn in Aug from EUR 22.4 bn in Jul and EUR 17.5 bn in Aug 2014.
- **German industrial production** fell -1.2% mom in Aug, following a revised 1.2% mom increase in Jul. **Spain's industrial production** rose 2.4% yoy in Aug, down from

Jul's 5.2% gain. **France's industrial production** jumped 1.6% mom in Aug, following a -1.1% drop in Jul. **Italy's industrial production** fell -0.5% mom in Aug after a 1.1% gain in Jul.

- **U.K. industrial production** rose 1% mom (1,9% yoy) in Aug after retreating a revised -0.3% mom (0.7% yoy) in Jul.
- **France's foreign trade** deficit narrowed to EUR 3bn in Aug from a revised EUR 3.2bn in Jul driven by weaker imports, while exports fell only modestly.
- **The UK trade** deficit was GBP -11.1bn in Aug, following a revised GBP -12.2bn shortfall in Jul
- The **UK house price index** was down -0.9% mom (up 8.6% yoy) in Sept, following a 2.7% mom (9% yoy) increase in Aug.
- **Russian annual inflation** in Sep was almost stable at 15.7% yoy from 15.8% yoy in Aug.

Asia and Pacific:

- **China's foreign exchange reserves** dropped USD 43bn in Sep vs USD 94bn in Aug, most likely due to intervention in support of the yuan.
- **The Bank of Japan** kept monetary policy on hold releasing an upbeat statement mentioning risks from a slowdown in emerging markets but, engaging a herculean fight against reality, downplayed recent negative macro data in Japan asserting that the recovery is on track.
- **Japan's current account** was in surplus for the 14th consecutive month. The economy recorded a surplus of JPY 1.65tn in Aug, from Jul's JPY 1.8tn. However, **the trade deficit** disappointed at JPY -326.1 bn worse than JPY -108bn in Jul.
- **Japan's machinery orders** shrank -3.6% mom in Jul, following a -7.9% fall in Jun. Both manufacturing and nonmanufacturing sectors contributed to the plunge.
- **Taiwan's CPI** increased 0.3% yoy in Sep, reversing a 0.5% decline in Aug pushed by food prices as supplies suffer

from the impact of the typhoon season on agriculture output.

- **India's Nikkei/Markit's** services PMI fell to 51.3 in Sep from 51.8 in Aug. The composite PMI was 51.5 in Sep down from 52.6 in Aug.
- **Australian owner-occupied housing finance** expanded 2.9% mom in Aug after a -0.3% fall in Jul.

Bottom line: China's transition to a service oriented economy is depressing commodities prices: this in turn is benefitting large developed countries. Hence global growth is affected by two forces pulling in different directions. Monetary policy in the US warrants some tightening, but as the dollar is the world's main currency such a move would derail emerging markets where debt levels could become unsustainable. The conundrum is that the boost to global growth and global trade from developed economies so far has been slower and weaker than the drag exerted by the Chinese transition. Emerging markets are being hit by retrenching in global trade, plunging commodity prices, devaluations and capital outflows, all of which are exacerbating domestic inefficiencies and structural shortcomings.

The IMF's latest forecast for global growth of 3.1% in 2015 is "once again" weaker than predicted in the spring. This growth rate is the weakest since the Great Recession of 2009 and on a par with growth in 2008. The IMF attributed the bleaker outlook to lower productivity growth, high public and private debt levels, ageing populations in developed countries and a hangover from post-crisis investment booms in many emerging economies.

Regional Developments

- **Non-oil growth** in **Bahrain** is expected to remain strong at 4.6% this year, as per Bahrain Economic Development Board estimates, bringing the full year growth to 3.6% alongside flat oil sector output. Sector-wise, transport

& communications, construction and hospitality sectors are the strongest performers.

- **Egypt PMI** fell to 50.2 points in Sep, from an 8-month high of 51.2 the month before, with both output and new orders indices declining from Aug, while new export orders index shrank for the third consecutive month, to 47.8 points.
- **Urban inflation in Egypt** rose to 9.2% in Sep (Aug: 7.9%), as food prices increased, while core inflation dropped to 5.55%.
- **Egypt's foreign currency reserves** edged lower to USD 16.335bn at end-Sep from USD 18.096bn in the previous month.
- Bilateral **trade between Egypt and India** stood at USD 5.5bn in 2014; the former's Industry Minister revealed that the country is aiming an increase to USD 8bn in 2016. It was disclosed by the Indian ambassador to Cairo that there are around 50 Indian companies operating in Egypt with investments worth USD 3bn.
- According to a tender document, **Iraq's** State Oil Marketing Company is seeking nearly 4.45 million tonnes of **oil products** for delivery in 2016.
- **Jordan's GDP** grew by 2.4% yoy in Q2 (Q1: 2.0%), with the extractive industries sector achieving the highest growth rate, sector-wise, of 23% while private services sector grew by 6.3%.
- According to **Oman's** undersecretary at the Ministry of Oil and Gas, the country has no intention to hike **fuel prices** in line with other GCC countries.
- **Qatar's** overall **balance of payments** recorded a small surplus of USD 2.4bn in Q2 2015, and current account surplus narrowed to USD 4.7bn (11.1% of GDP). Current account surplus may shrink to 6.2% of GDP this year, on lower hydrocarbon exports and prices, as per the Qatar National Bank estimates.
- **Qatar foreign trade surplus** fell by more than 50% to QAR 43.26bn in Q2, with exports down 39% to QAR 72.61 and

imports up 10.3% to QAR 29.35bn. During this quarter, Asia was the principal destination of Qatar's exports and the first origin of Qatar's imports, representing 71.3% and 31.3% respectively, followed by the European Union (11.9% and 28.7%) and the GCC (9.8% and 15.7%).

- The **cost of living index** in **Qatar** was up 1.1% yoy in Q2, on higher rents, education, transport and tobacco prices. The price of education saw the maximum rise of 11.1% yoy in Q2, due to the increase in fees of the primary and pre-primary education, but was unchanged in qoq terms.
- Average annual **electricity generation** in **Qatar** was 10% between 2010-14, according to a report published by Qatar General Electricity and Water Corporation. The production of electricity was at 38963 GWh in 2014, with production rising every year except 2013, when there was a marginal 0.3% yoy fall.
- **Net foreign assets** at **Saudi Arabia's** central bank fell by USD 6.6bn or 1% mom and 11.2% yoy to SAR 2.455 trillion in Aug. Assets are at their lowest level since Feb 2013, though the pace of decline has eased thanks to the sovereign bond issuances. Separately, investment in foreign securities recorded a monthly increase for the first time in 2015, rising by USD 4.2bn, according to a report from Jadwa Research.
- The value of awarded **contracts** in **Saudi Arabia** increased to SAR 82.8bn in Q2, with roads and residential real estate accounting for approximately 57% of the total value, according to NCB Construction Contracts Index.
- **Saudi Arabia** plans to convert a state-owned **housing fund**, the Real Estate Development Fund (with a size of SAR 183bn), into a bank. Once converted, the bank will offer financing in cooperation with the private sector to eligible people.
- The **GCC** plans to **integrate its stock exchanges**, with talks underway in this regard as recently as last month in Doha, according to a CMA official from Oman. He said

that “in the new scenario, the company that wants to be listed, it will be able to do it from one common market and through common brokers”.

- **GCC** governments are maintaining **capital investment spending** to support economic activity, in spite of fiscal pressures, disclosed an S&P report. The report also states that non-government capital spending is weakening, especially in the oil and gas sector – the value of contracts in the Middle East is down 16% yoy to USD 83bn by end-Aug.
- **GCC public pension funds** amount to around USD 397bn, representing nearly a quarter of GDP and USD 15k per national, according to EY’s GCC Wealth and Asset Management 2015 report. Within the GCC countries, Kuwait has the best capitalized fund, relative to the size of its economy and citizen population.

UAE Focus

- **UAE PMI** clocked in at 56 in Sep, down from Aug’s 57.1, with growth supported by higher output and new orders, supported by further rises in employment and input stocks.
- The Minister of Economy estimates **UAE GDP** to grow more than 3.5% to around AED 1.6 trillion this year, compared with AED1.5 trillion in 2014.
- **Money market rates** in **UAE** touched their highest levels in roughly two years on Tues, as government oil revenues dipped.
- **Islamic banking assets** in the **UAE** increased 9.8% since beginning of the year, growing to AED 445bn by end-Q2. UAE’s 8 Islamic banks increased their share of total banking assets to 18.4% at end-Q2 from 17.3% in Q1 of 2014, as per the central bank.
- The **UAE** government plans to reduce **water and power consumption** by 10%, translating into AED 3.5bn in savings per year, according to the Energy Minister.

- **UAE** was ranked **second in the list of top 10 Islamic countries**, with strong scores in Islamic finance, halal food and travel where it ranks as top three, in a report published by Thomson Reuters.

Media Review

Trans-Pacific Free Trade

<http://www.reuters.com/article/2015/10/05/us-trade-tpf-iduskcn0ry0mv20151005>

The World Bank on Growth and Demographic Trends

<http://pubdocs.worldbank.org/pubdocs/publicdoc/2015/10/477081444102982630/Global-Monitoring-Report-2015-Demographic-Change.pdf>

Egypt's New Suez Canal & its Impact

http://www.zawya.com/story/What_impact_will_Egypt's_New_Suez_Canal_have_on_the_region-ZAWYA20151008062915/

Saudi Oil Pricing

http://www.zawya.com/story/Saudi_pricing_shows_oil_volatility_in_action_amid_oversupply_Russell-TR20151005nL3N1250DYX2/

The Increased Probability of a US Recession

<http://www.bloomberg.com/news/articles/2015-10-09/a-u-s-recession-just-got-a-little-more-likely>

The IMF publishes its World Economic Outlook & Global Financial Stability Report

<http://www.imf.org/external/pubs/ft/weo/2015/02/>

<http://www.imf.org/External/Pubs/FT/GFSR/2015/02/index.htm>

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