

Weekly Economic Commentary – Nov 1, 2015

Markets

Wall Street closed slightly lower even though major U.S. and European stock indices posted their best month in at least four years, boosted in part by accommodative monetary policies. The Fed's hawkish stance did not cause much concern in developed markets. However emerging markets reacted negatively to the Fed statement and regional markets also dropped pushed down by the gyrations of the oil price. The dollar fell on Friday against a basket of currencies, reducing its monthly and weekly gain after the Fed's announcement. Oil prices were remarkably volatile but edged up on the week (for the first time in four weeks) after the U.S. oil rig count fell for a ninth straight week, indicating crude production could decline in coming months. The Fed statement affected also gold prices which hit a three-week low, recording their biggest weekly drop since August.

Global Developments

US/Americas:

- **US GDP** growth slowed sharply to 1.5% yoy (sa, ann.) in Q3, after an expansion of 3.9% in Q2. Consumption, fixed investment, exports, and state and local government spending made positive contributions while inventories and imports exerted a push back. Real disposable income rose 3.5% after rising only 1.2% in Q2. The saving rate inched up to 4.7%
- **The US Fed signaled** that it will in all likelihood raise interest rate at its next meeting in Dec. The central bank dismissed recent global financial market volatility as temporary and stressed that the U.S. labor market was

still buoyant despite a slower pace of job growth.

- **The personal consumption expenditure deflator** in **US** fell -0.1% in Sep after being flat in Aug. Food prices rose 0.2%, while energy prices fell 4.9% in Sep following a 2.3% decline in Aug. The core PCE deflator, i.e. excluding food and energy, rose 0.15%.
- Republicans in Congress have reached a **budget deal** agreement with the White House to avert a government shutdown. If approved by the Senate the 2-year deal lasting until Mar 2017 will increase spending by USD 80bn.
- **Total bankruptcy filings** in **US** fell 4.7% qoq during Q3 and 8.1% yoy in line with improved business conditions.
- **US personal income** rose by 0.1% in Sep compared to the 0.4% average over the prior three months. Disposable income also disappointed rising by only 0.1%, down from 0.4% in Aug. Wages and salaries dropped by USD 3.7bn compared with an increase of USD 36bn in Aug.
- **University of Michigan consumer sentiment survey** rose to 90 in the final week of Oct, gaining 2.8 points from Sep's final index. This was the first end-of-month increase since Jun, with a recovery from last month's steep drop.
- **Employment Cost Index** expanded 0.6% qoq in Q3, marginally up from 0.2% in Q2.
- **US initial unemployment claims** reached 260,000 in the week ended Oct 24, increasing just 1,000 from the previous week. The four-week moving average fell by 4,000 to 259,250, the lowest since the 1970s. Continuing claims fell 37,000 to 2.144 million.
- **US homeownership rate** declined -.07% qoq in Q3. Inversely, **homeowner vacancy rate** saw a marginal increase of 0.1% qoq reaching 1.9%.
- **New-home sales** fell in Sep by 11.5% mom, but are still up by 2% yoy. The **Case-Shiller** 20-city composite house price index grew 5.1% yoy in Aug vs 5% in Jul. The national index rose 4.7% yoy almost the same rate,

4.6%, as in Jul.

Europe:

- **The Eurozone's M3 money supply** adjusted annual growth was unchanged at 4.9% yoy in Sep.
- **The Eurozone's unemployment** rate was 10.8% in Sep, compared to 10.9% in Aug, a downward glacial pace despite the ultra-loose monetary policy. **Germany's unemployment rate** remained at 6.4% for the seventh consecutive month in Oct.
- **Eurozone consumer prices** was unchanged in Oct from a year earlier, which was following a -0.1% decline in Sep.
- **The Eurozone's economic sentiment** indicator ticked up to 105.9 in Oct up from 105.6 in Sep. The sub-indices for industrial confidence, construction confidence and retail sales confidence improved, while the consumer confidence and services confidence sub-indices deteriorated.
- **Eurozone's Conference Board Leading Economic Index** was 108 in Sep, unchanged from the previous month. **Greek crisis**, tensions with Russia, **immigration** upsurge, and **China's** slowing continue to weigh. On the other side, stock markets are higher and the business environment displays favorable conditions for a recovery in 2016.
- **German bank lending to private enterprises** fell in Sep yoy for a tenth consecutive month. **Loans to non-financial** corporations dropped -1% yoy and 0.1% mom. Meanwhile, **loans to households** recorded a 0.3% surge mom and 2.4% yoy.
- The **German IFO** Business Climate Index fell a tad to 108.2 in Oct down from 108.5 in Sep.
- **UK's real GDP** raised 0.6% qoq in Q3 compared with a revised 0.7% in Q2. **Services, agriculture, and industry grew** by 0.7%, 0.5% and 0.3%, respectively, while **construction** contracted 2.1%.

- **The UK nationwide housing price** index rose 0.6% mom in Oct, following a 0.5% increase in Sep. In 2014, house prices climbed 3.9%, after a 3.8% gain in Sep.

Asia and Pacific:

- In a momentous decision intended to help stave off demographic decline and a sharp drop in the labor force, **China** abandoned its long-standing one child per couple policy.
- **Japan's CPI** fell -0.1% yoy in Sep, the same as in Aug.
- **Japan's industrial production** was expanding 1% mom in Sep, following two consecutive months of declines. **Japan's retail sales** fell -0.2% yoy in Sep, from 0.8% in Aug.
- **Japanese workers' household** expenditure slumped by -1.6% yoy in Sep, after rising 3.7% in Aug.
- **Taiwan's economy** narrowly escaped a technical recession in Q3, with **GDP** growing just 0.05% qoq and down -1.0% yoy. This is the first time the economy declined in yoy terms since 2009.
- **Hong Kong's trade deficit** widened to HKD 36.4bn in Sep from Aug's HKD 25.1bn.
- **The Bank of Korea's consumer confidence index** rose 2 points in Oct to 105, driven by accommodative monetary policy and falling energy prices.
- **Korea's industrial production** improved in Sep, up 2.4% yoy, following Aug's 0.1% increase.
- **Singapore's industrial production** was down -4.8% yoy in Sep, an improvement from the -7.1% yoy drop in Aug.
- **Australia CPI** softened to 0.5% qoq in the Sep from 0.7% qoq in Jun.
- **South Korea retail** trade softened in Sep, rising 0.5% mom after Aug's 2.1% gain.

Bottom line: The dismal Q3 US GDP data confirm that the slowdown in the world economy is not a temporary phenomenon. In Japan the massive monetary stimulus, after some initial

effect in reflating the economy, is proving ineffective and deflation still persists. The euro area is benefitting from lower energy prices and a weaker euro, but it is hardly showing signs of a robust growth acceleration. Over the horizon looms the risk of a series of balance of payments crisis in emerging markets after the Fed finally initiates the process of interest rate normalization in December.

Regional Developments

- Fitch, Moody's, and S&P **rate Bahrain** at BBB-, with the former bringing the outlook to stable while the other two still have it at negative. With both Fitch and S&P scheduled to review the country's sovereign rates in Dec, a Bank of America Merrill Lynch report predicted that while the rating is unlikely to be changed this time round, the country stands a chance of being downgraded to "junk" status in the medium-term if fiscal improvements are not made.
- **China is the largest exporter of non-oil goods to Egypt** in H1 this year, accounting for 15% of the Egypt's imports at EGP 35bn (up 82% yoy). Germany and US followed at EGP 20.4 and 16.8bn respectively.
- **Egypt's revenues** from the **Suez Canal** dropped to USD 448.8mn in Sep from USD 462.1mn the month before, according to the Suez Canal Authority. Though the country's expansion of the Canal is projected to double daily traffic and raise revenues to USD 13bn by 2023, a Moody's report estimates that world trade needs to expand by at least 10% for this scenario to happen, an unlikely development.
- Following a request from **Iraq**, Kuwait has postponed the final instalment of **reparations** – the largest tranche at USD 4.6bn – for the 1990-91 occupation.
- **Jordan's state budget** for 2016 is likely to be based on oil price at USD 60 and a growth rate of 3.7%. The exact budget figures are still being discussed in coordination with the various government agencies.

- The Emir of **Kuwait** stated to the cabinet and parliament that “urgent **reform measures**” need to be adopted in the backdrop of the oil price dip and advocated against running down its Future Generations Fund. Subsidy cuts are being planned, local media reported, which could lead to almost doubling of existing gasoline prices. Kuwait posted a budget deficit of KWD 1.094bn in the five months through Aug 31, after a payment into the Future Generations Fund.
- **Inflation** in **Kuwait** touched 3.8% yoy in Aug (Jul: 3.6%), largely on food inflation (Aug: 5.6%; Jul: 4.1%). Core inflation, which excludes food, eased for the first time in almost a year, but remains relatively high at 3.4%.
- **Kuwait’s money supply** slowed to 3.4% yoy in Aug (Jul: 4.7%) while bank lending to the private sector slowed to 4.3%, the slowest rate since July 2013, and from 4.9% in July.
- Reuters reported that **Lebanon exchanged** USD 318.3mn of an outstanding USD 750mn 8.50% 2016 **bond for new debt** that comes due in 2024 and 2028.
- The effective exchange rate index of **the Omani Rial** at end Sep rose 8.3% due to the US dollar appreciation.
- 23 construction projects are underway in **Oman’s Duqm**, of which 14 construction projects are in the tendering stage, totaling OMR 200 million.
- The number of **private sector workers** in **Oman**, earning a basic salary of OMR 2k, reached 7,139 in Sep, compared with 6,122 workers in Dec 2014, a 16.6% growth.
- **Oman’s narrow money supply** grew by 14.5% yoy to OMR 5.3bn in Aug 2015. M2 went up by 10%.
- **Qatar trade surplus** fell 11.2% mom to QAR 12.1bn in Sep; while Japan, South Korea, India, UAE and Singapore were its top trade partners, double-digit dips in yoy terms were recorded in trade with its Asian counterparts. Total exports plunged by 39.5% yoy and 10.6% mom to QAR 21.19bn in Sep.
- **Qatar exported** a total of 595k barrels per day (bpd) of

crude oil and 522k bpd of **refined petroleum products** last year, reported the US Energy Information Administration (EIA). All its crude oil refined product exports were to Asian countries, with Japan alone accounting for most of Qatar's refined products, at an estimated 60%.

- Standard & Poors cut its **ratings** for **Saudi Arabia's** long-term foreign and local currency sovereign credit by one notch to 'A-plus/A-1', citing a "pronounced negative swing" in the government's budget balance. S&P kept its outlook for the ratings negative, saying it could lower them further in the next two years. Five-year Saudi **credit default swaps** are now at the highest level since Jan 2012, when the Arab uprisings were in progress.
- **Saudi Arabia's** foreign minister disclosed that the country's **deficits** this year were "**manageable**", stating that spending was high with the country being on the tail end of a huge infrastructure development programme.
- While no further details were given, **Saudi Arabia's** oil minister revealed that the country was studying the need to **raise domestic gas prices**. His remarks are the first public confirmation by a senior official that such reform were under study.
- **Iraq overtook Saudi Arabia as the top crude exporter to India** in Sep for the third time in 2015; India shipped in about a fifth of its imports from Iraq in Sep, while Saudi Arabia's share dropped to 17% from about 22% in Aug. This follows prior news that **Russia had replaced Saudi as the top exporter of oil to China**. Traders attribute the shift to a hike in Saudi's official selling price of crude.
- Job opportunities in **Saudi Arabia's tourism sector** are expected to reach 1.7 million by 2020, thanks to the execution of a number of hotel mega-projects across the country, according to the Tourism Information and Research Center.
- UAE, which undertook four reforms last year, topped the

MENA region in the World Bank's **Doing Business 2016** report. The country, ranked 31st (compared to last year's 22), was ahead of Qatar (68), Tunisia (74), Morocco (75), Saudi Arabia (82), Iran (118), and Egypt (131). The report also found that 11 of the region's 20 economies implemented a total of 21 reforms facilitating the ease of doing business.

- If the **GCC's renewable energy targets** were met, this would save 4 billion barrels of oil and reduce emissions by 1.2 gigatonnes between now and 2030. The findings are from a report to be issued at the World Future Energy Summit to be held in Jan.
- **Etihad Rail** is in the final stages of evaluating tenders for the construction of Stage Two that will connect Abu Dhabi to Dubai, Saudi Arabia and Oman.

UAE Focus

- The **UAE** cabinet approved the **2016 budget**, set at AED 48.56 with zero deficit, down from this year's AED 49.1bn budget plan. Education received the maximum allocation of 21.2% of the Federal budget, while social development, public services and health were allocated 15.4%, 11.1% and 7.9% respectively. UAE's federal budget traditionally accounts for only around 14% of total fiscal spending in the country.
- **UAE's** Minister of Economy said that while the government was **open to introducing taxes**, any decision would be evaluated before implementation given its impact on competitiveness, and also that "we are part of the GCC and there should be a common policy".
- The CEO of National Bank of Abu Dhabi (NBAD) revealed that that the **UAE** banking system saw **government deposits** decline by AED 56bn in the 12-month period to Sep 2015, with NBAD alone witnessing a drop in government deposits by AED 48bn during this period.
- **UAE bank lending** growth slowed to 7.0% yoy in Sep,

recording the slowest pace since at least Feb 2014 (when the current series began), and down from Aug's 8.6%.

- The **UAE** central bank Q3 **credit sentiment report** revealed that growth of demand for credit in the country has stabilised after a slowdown in recent quarters. Survey results also "suggest a reduced willingness to extend business loans among financial institutions, with changes in credit standards suggesting a higher degree of risk aversion".
- **Domestic oil prices** in the **UAE** are set to be lower this month: around 5% down compared to Oct, and even lower than when subsidies were in place.
- **Passenger traffic** at **Dubai** Airports were up 12% yoy to 58.7mn persons in the first nine months of this year; Sep alone saw a growth of 8% yoy to 6.4mn passengers.
- Dubai's **DP World** reported 3.2% increase in nine-month gross **container volumes**, handling 46.5 million twenty-foot equivalent units, with growth largely driven by European and UAE terminals.
- The value of goods coming in and out of the **Fujairah Free Zone** is expected to increase by 3-4% this year, according to its Director-General, though no reason was provided for this increase. In 2014, the free zone had imported, exported and re-exported AED 8.4bn worth of goods.

Media Review

\$\$\$ What? USD, EUR, JPY: The 10 most important economic charts of the week

<http://qz.com/537643/usd-eur-jpy-the-10-most-important-economic-charts-of-the-week/>

The freight politics of the TPP

<http://www.project-syndicate.org/commentary/tpp-economic-gains-political-obstacles-by-koichi-hamada-2015-10>

Crowdfunding gains traction: new SEC rules will allow anybody, not just the wealthy, to invest in startups in the US

<http://qz.com/538284/new-sec-rules-will-allow-anybody-not-just>

[-the-wealthy-to-invest-in-startups-in-the-us/](#)

World Bank's Doing Business 2016: overview & report

<http://www.doingbusiness.org/reports/global-reports/doing-business-2016>

<http://www.doingbusiness.org/~media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB16-Full-Report.pdf>

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