

# Weekly Economic Commentary – Nov 8, 2015

## Markets

The prospect of a Fed tightening in December after the statements by Yellen and the upbeat non-farm payroll numbers was not hailed by many US traders. However Wall Street completed 6 consecutive weekly of advances, its longest streak since late last year. European and Japanese indices followed in the wake of the US. In emerging markets the prospect of a US rate hike left most investor unenthusiastic and most regional markets (with the exception of Egypt and Morocco) had a bad week. The dollar had a banner week as the divergence between the monetary policy stances on the two sides of the Atlantic is ever wider. The greenback jumped to a seven-month high against the euro extending its strength on all main crosses after the strong US jobs data. Oil prices were generally on the weak side while gold recorded its third week of losses.

## Global Developments

### **US/Americas:**

- **Fed President Yellen** confirmed in her congressional testimony the impression that the FOMC members are ready for a hike in December, as we predicted since last summer.
- **US non-farm payrolls** grew 271,000 in Oct, a robust reversal from two previous weak readings. A broader measure of unemployment (combining those not actively seeking job as well as those working part time for economic reasons) declined to 9.8%, falling to single digit for the first time since May 2008. Average hourly earnings, gained 0.6% mom and 2.5% mom.

- **Non-farm productivity** increased 1.6% yoy sa in Q3, down from 3.3% in the previous quarter.
- The number of **Americans who are not in the labor force** remains extremely high in historical terms at 94.5 million.
- The **US ISM non-manufacturing** composite index increased strongly from 56.9 in Sep to 59.1 in Oct. The details were largely positive, with the employment index edging higher,
- The **US ISM manufacturing** composite index saw a marginal decrease to 50.1 from 50.2 in Oct, suggesting that the manufacturing is stalling.
- **St. Louis Fed Financial Stress Index** decreased to -0.879 for the week ended Oct 31, recording the 4th consecutive decline.
- **US initial unemployment claims** increased 16,000 to 276,000. The four-week moving average rose somewhat from 259,250 to 262,750. A figure below 300,000 is historically rare but has prevailed in 2015.
- **US new orders for manufactured goods** fell -1% mom in Sep, compared to a -2.1% drop in Aug. Orders for durable goods fell -1.2% while nondurable goods orders also lost -0.8%.

## Europe:

- The **final Eurozone's manufacturing PMI** came in at 52.3 in Oct. On a country basis, the German manufacturing PMI edged down on the month by 0.2pt to 52.1, while the Spanish PMI fell by 0.4pt. The French PMI was flat, and the Italian PMI experienced a significant gain of 1.4pt.
- **Eurozone retail sales** growth was almost flat mom in Sep more or less the same result as in Aug. **German retail sales** held stable in Sep, following a revised -0.7% drop in Aug.
- **Euro zone producer prices** plunged -3.1% yoy in Sep, following a -2.6% drop in Aug.

- **German manufacturing orders** plunged -1.7% mom in Sep following a similar -1.8% decrease in Aug. In yearly terms, factory orders contracted -0.9% after advancing 2.2% in Aug.
- **German industrial production** fell -1.1% mom in Sep worse than the -0.6% decrease in Aug. **The UK industrial production** index fell -0.2% mom and 1.1% yoy in Sep after a revised increase of 0.9% mom and 1.8% yoy.
- **The UK** Halifax house price index was up 1.1% mom in Oct, following a 0.9% cut in Sep. A year ago, the index was up 9.7% in the three months to Oct after a surge of 8.6%.

### **Asia and Pacific:**

- **China CPI** grew 1.6% yoy in Sep, down from a 2% increase in Aug. Meanwhile **China's PPI** remained in deflation in Sep, falling -5.9% yoy for the second month in a row.
- **Chinese industrial production** grew 5.7% yoy in Sep, weaker than Aug's 6.1% gain.
- **China's M2 money supply** grew 13.1% yoy in Sep, slowing mildly from a 13.3% increase in the Aug.
- **Chinese retail trade** disappointed by rising just 10.9% yoy in Sep from Aug's 10.8%. Low inflation consumers' uncertainty and low oil prices are the main dampening factors.
- **China fixed-asset investment** growth decelerated further to 10.3% yoy in Sep, down from a 10.9% yoy increase in Aug.
- **India industrial production** index rebounded by 6.4% yoy in Aug, from the 4.2% gain in Jul.
- **Hong Kong's GDP** grew 0.4% in Q2, down from an upwardly revised 0.7% in Q1.
- **Indonesia's GDP growth** was unchanged at 4.7% yoy in Q3, the third reading below 5%, due to falling commodity prices, China's slowdown, and anemic investments.
- **Malaysia's GDP** grew 4.9% yoy in Q2 vs 5.6% yoy in Q1.

**Bottom line: The four largest economies in the world remain in the doldrums. The partial exception is represented by the US: although growth dropped sharply to 0.3% qoq other key indicators, primarily in the job market in services and in the real estate are recording healthy growth rates. In Europe, German industry is showing signs of deterioration with the impact of the Volkswagen scandal yet not fully assessed. The normalization of monetary policy – long delayed for fear of disrupting debt sustainability in emerging markets -hit by currency devaluations and the plunge in commodities prices- will test the resilience of financial markets without the shot in the arm represented by unprecedented liquidity injections. Equities face a lackluster period of lower earnings growth or even declining earnings growth, while fixed income securities prices will drop as interest rates head north.**

### Regional Developments

- **Bahrain** has picked four banks – Bank ABC, BNP Paribas, Citigroup and JP Morgan – for a potential **Eurobond**, reported Reuters, citing unnamed sources. The value of the bond and timing of the issue are unconfirmed.
- **Egypt's PMI** contracted in Oct, falling to an 8-month low 47.2 (Sep: 50.2), with the sub-indices showing marked contractions in output and new orders.
- **Egypt's foreign exchange reserves** increased to USD 16.415bn at end-Oct from USD 16.335bn in the previous month, according to the central bank.
- **Budget deficit** in **Egypt** narrowed to 11.5% of GDP in the fiscal year 2014/15 from 12.2% during the previous year.
- **Bilateral trade** between **Egypt** and **France** reached EUR 1.5bn within H1 2015 versus EUR 1.2bn a year earlier.
- The **World Bank** agreed to raise **Egypt's** loan portfolio to USD 6bn from USD 5.5bn, though the final agreement has yet to be sealed. The amount, is expected within a three-year period from 2015 to 2017, will include a USD 3bn loan while the rest of the amount is intended as

“investment loans based on national projects”.

- Shipment delays resulted in **Iraq's oil exports** falling to an average 2.7mn barrels per day (bpd) in Oct, from 3.052 mn bpd the previous month.
- **Jordan** plans to undertake **privatisation of its bourse** by early next year, as soon as the parliament agrees to a draft law that changes the bourse into a public shareholding company, revealed its CEO.
- **PMI** in **Lebanon** fell to a 14-month low of 47.1 in Oct (Sep: 48.1) as sub-indicators fell across the board; output of surveyed Lebanese businesses recorded the sharpest rate of decline since Aug 2014.
- **Lebanon** launched a USD 1.6bn sovereign **Eurobond**, disclosed the Finance Ministry. The issue was oversubscribed (~113%) and while foreign banks and institutions subscribed to 10%, the rest of the demand came from local banks.
- According to Moody's Investor Service, **Oman's new 2016-20 development plan** will drive economic diversification allocating an increased portion of public spending to five main sectors: logistics, fisheries, tourism, manufacturing and mining.
- **Oman** pledged to cut **greenhouse gas** emissions to 88,714Gg (gigagrams) over 2020-30 as part of an action plan submitted to the UN Framework Convention on Climate Change.
- **Qatar's** Emir, in a speech to the government's Advisory Council, stressed the importance of compiling a **state budget** in 2016 that avoids wider deficits. With revenues from oil and gas exports down almost 40% this year (up to Sep), it is likely that the country will move away from past decades' double-digit spending plans.
- **Qatar** banks' **credit to real estate sector** surged 29.5% yoy to QAR 114bn as of Sep 2015, according to central bank estimates. Public sector credit declined by 6.7% yoy to QAR 223bn while total assets rose to QAR 1.06 trillion.

- **Saudi Arabia PMI** fell to 55.7 in Oct (Sep: 56.5), the lowest in the survey's history, with output, new orders and employment sub-indices rising at weaker levels compared to the previous month.
- Credit default swap (**CDS**) rates for **Saudi Arabia** touched 154.2 points last week, its highest level since Jun 2009, and from around 84 points in mid-Sep, on ratings downgrade and PMI data.
- In one of the first signs of gradual removal of **subsidies**, **Saudi Arabia** plans to raise the **price of water** for non-residential consumers, reported *Al Watan*. According to the paper, the rate for industrial, government or large corporate users will rise to SAR 9 per cubic metre from SAR 4 now, starting from Dec 16.
- Interest in **IPOs** in the **GCC** slowed, with no listings in Q3, on geopolitical issues and greater economic uncertainty, according to PwC. Saudi Arabia was a key player in the Sukuk/ debt market with issuances like Almarai's USD 426.6mn sukuk with a floating interest rate in Sep and the National Shipping Company's USD 1.04bn sukuk.
- **GCC Islamic banking** profits crossed USD 12bn for the first time in 2014, as per estimated disclosed in the EY World Islamic Banking Competitiveness Report 2015-2016.
- Saudi Arabia, UAE and Qatar are rescheduling non-essential **maintenance** work at **oilfields** originally planned for Q4 this year later into 2016, reported Reuters, citing industry sources.
- The European Bank for Reconstruction and Development (**EBRD**) launched a USD 250mn financing programme to spur private sector investment in **renewable energy** in Morocco, Egypt, Tunisia and Jordan.
- **UNHCR** revealed that the number of migrants and **refugees** entering Europe by sea in Oct, at 218,394, was roughly the same as for the whole of 2014.

## **UAE Focus**

- **UAE PMI** fell to 54 in Oct (Sep: 56), the lowest since Apr 2013, as new orders fell amidst modest increases in employment and inventories.
- **Dubai's non-oil foreign trade** during H1 2015 reached AED 652bn, with China (bilateral trade: AED 90bn) surpassing India (AED 50bn) as the emirate's top trade partner.
- **Deposits** in **UAE** banks shrank 0.45% qoq to AED 1.43bn in Sep (Jun: AED 1.44bn), according to Central Bank data. Credit growth continued to slow, registering 2.1% in Q3, down from 2.5% at end-Jun.
- **Land and property transactions** in **Dubai** totaled AED 186.34bn, through 33,907 deals, in the first nine months of this year. Cash sales accounted for 42% of the total land transactions (roughly 22,389 transactions) while mortgage-based deals made up 50%.
- **Dubai** attracted close to 241k **Chinese visitors** in H1 this year, up 26% yoy; China is Dubai's seventh largest tourism source market, and grew the most last year, with 344,000 visitors, up 25 per cent compared to 2013.

### **Media Review**

#### **What to do with higher interest rates?**

<http://seekingalpha.com/article/3651596-a-strategy-to-deal-with-rate-hikes-over-the-next-36-months>

#### **The best 5 estimates on Chinese GDP**

<http://seekingalpha.com/article/3660056-the-5-best-china-gdp-growth-estimates>

#### **Bad macro news fuel stock rally**

<http://seekingalpha.com/article/3659266-bad-news-is-good-news-once-again>

#### **The graph of long term earnings growth**

[http://www.factset.com/websitefiles/PDFs/earningsinsight/earningsinsight\\_11.6.15](http://www.factset.com/websitefiles/PDFs/earningsinsight/earningsinsight_11.6.15)

#### **China's intervention lessons**

<https://www.project-syndicate.org/commentary/china-government-intervention-stock-market-volatility-by-yu-yongding-2015-11>

**Cheap oil eats into Saudi corporate profits, more pain ahead**

[http://www.zawya.com/story/Cheap\\_oil\\_eats\\_into\\_Saudi\\_corporate\\_profits-TR20151105nL8N12Q38EX2/](http://www.zawya.com/story/Cheap_oil_eats_into_Saudi_corporate_profits-TR20151105nL8N12Q38EX2/)

Powered by:

