

Weekly Economic Commentary – Nov 15, 2015

Markets

The action on stock prices came from Asia where the Shanghai Composite Index regained its highest level since August 20, with brokerages surging on the news that IPO plans will be dusted off. However the week did not end well for global equities, with European market recording the biggest weekly loss since the beginning of September, while the DJ and the MSCI in emerging markets plunged almost 4%. Regional markets were mixed but overall they lost almost 2%. In the currency markets the euro dollar was almost stable and most currency pairs lost substantially against the greenback. Oil prices recorded the largest weekly drop in 8 months, and Brent fell below USD 45/b for the first time in three months after OPEC warned that inventories are currently 210m barrels above the 5-year average, larger than the build-up recorded in 2009 during the Great Recession. Gold touched a six year low.

Global Developments

US/Americas:

- John Williams, president of the **Federal Reserve Bank of San Francisco**, revealed in a public event that the decision to hold rates in October was a “close call.”
- **US PPI** declined -0.4% mom in Oct, recording the 2nd monthly consecutive drop after Sep’s 0.5% decrease. Food prices were the main cause, falling -0.8% mom.
- **Retail Sales** saw a marginal increase of only 0.1% mom in Oct, consistent with Sep’s growth. Overall, retail sales remain weak constrained by low gasoline prices.
- **Job Openings Rate** reached 3.7% in Sep. up from 3.6% the previous month. The **quit rate** remained at 1.9% despite a

- low **lay-off rate** of 1.2% and high availability of jobs.
- The **Federal Reserve's Tech Pulse Index** expanded to 83.6 in Oct, recording a 5.6% yoy gain.
 - **US Import Prices** fell -0.5% mom in Oct after a -0.1% decline last month, the 4th consecutive monthly decline caused by the USD appreciation.
 - **University of Michigan Consumer Sentiment Index** rose 3.1 points to 93.1.
 - **Initial Jobless Claims** remained at 276,000 confirming the healthy condition of the labor market.

Europe:

- Draghi during a hearing in the European Parliament signaled that the **ECB** is ready to boost its QE at its December meeting. He stressed that signs of a turnaround in core inflation have somewhat weakened and downside risks are substantial.
- The **Euro-zone's real GDP** growth slowed marginally to 0.3% qoq in Q3 from Q2, putting it 1.6% higher yoy. The figure is consistent with the sluggish growth scenario depicted by major forecasters.
- **The country breakdown** shows that **German GDP** increased 0.3% qoq in Q3 after increasing 0.4% in the previous quarter; **France's GDP** increased 0.3% qoq in Q3, after a flat reading in Q2; **Italy's GDP** advanced by a paltry 0.2% in Q3, compared to 0.3% in Q2.
- **Euro-zone industrial production** fell -0.3% mom and 1.7% yoy in Sept, following a revised decrease -0.4% mom and a 2.2% yoy rise in Aug.
- **Eurozone's monthly trade surplus** widened in Sept to EUR 20.5bn from EUR 17.4bn yoy.
- **France CPI** was up 0.2% yoy in Oct because of weak prices of energy products, particularly oil.
- **France industrial production** advanced 0.1% mom seasonally adjusted in Sep, following a 1.7% increase in Aug. **Italy's Industrial Production** rising 0.2% mom in

Sep after a 0.5% drop in the Aug.

- The **UK Q3 unemployment rate** fell to 5.3% from 5.4% in Aug, the lowest since mid-2008.
- **Germany's trade surplus** narrowed down to EUR 19.4bn in Sep from EUR 19.6bn in Aug.

Asia and Pacific:

- **China's** broadest measure of **new credit** plunged to a record low over 15 months in Oct, as aggregate financing fell to CNY 476.7bn, well below expectations for CNY 1.05trn.
- **China's CPI** rose 1.3% yoy in Oct, down from a 1.6% rise in Sep and **China's PPI** remained in deflation in Oct, falling -5.9% yoy for the third month.
- **China IP** grew 5.6% yoy in Oct, down slightly from a 5.7% yoy increase in Sep and **China's fixed asset investment** slid to 10.2% yoy in Oct, from 10.3% in Sep.
- **Chinese retail trade** improved in Oct, rising 11% yoy following Sep's disappointing 10.9% gain. **China's M2 money supply** growth rose to 13.5% yoy in Oct, up from 13.1% in Sep.
- **Japan industry activity index** fell 0.4% m/m in September, after a 0.2% increase in August. Service sector output declined as energy usage dropped.
- **India's IP** surprised on the downside as it expanded 3.6% yoy in Sep, vs a 6.3% rise in Aug.
- **Hong Kong's GDP** grew 0.9% qoq (2.3% yoy) in Q3 after a 0.4% qoq (2.8% yoy) gain in Q2.
- **Taiwan's monthly trade surplus** widened to USD 6.1 bn in Oct from USD 5.2 bn In Sep.
- **Malaysia's GDP** softened in Q3, growing 4.7% yoy after gaining 4.9% yoy in Q2 and **Malaysian IP** grew 5.1% yoy in Sep, up from Aug's 3% gain.

Bottom line: The OECD trimmed its global economic forecast for the second time in three months to 3.3% in 2016 from 3.3% previously citing the slowdown in emerging markets as a risk

factor. The weak global macro data find confirmation also in anecdotal evidence: Nils Smedegaard Andersen, CEO of Maersk, warned that the world economy is lagging behind the pace forecasted by the IMF and other institutions. Maersk, which handles 15% of all consumer goods has a sort of real time pulse of global trade. On the financial markets, despite QE in the US the quantity of long-term debt that the markets had to absorb exceeded, normal levels. This suggests that QE lowered rates and inflated asset values through signaling effects on future monetary policies not through the direct effect of Fed purchases. The Financial Stability Board, created by the G20 after the 2008 financial crisis, disclosed a plan to ensure giant lenders can be wound down and recapitalized in an orderly way, without taxpayer bailouts. Systemically important banks must hold capital “readily available for bail in” equivalent to at least 16% of risk-weighted assets in 2019, rising to 18% percent in 2022. A leverage ratio requirement will be added, rising from 6% initially to 6.75%.

Regional Developments

- **Bahrain**'s central bank plans to establish a **central sharia board of scholars** that will oversee the nation's Islamic finance sector – in addition to the already existing sharia board at the central bank, whose scope is limited to vetting its own products. While all Islamic financial products will need to be approved by the centralised sharia board, the central bank's sharia board will have the final say on how the ruling is implemented, although there is a mechanism to address differences of opinion between the two boards.
- Urban consumer **inflation** in **Egypt** rose to 9.7% in Oct (Sep: 9.2%), with costs being driven up by food prices. Core annual inflation, which excludes items such as fruit and vegetables, increased to 6.26% from 5.55%.
- **Egypt**'s **CDS rates** surged last week, with the 5-year CDS trading at 383 basis points on Monday – the highest

since April 2014.

- UK is the largest non-Arab foreign investor in the Egyptian market. **British investments in Egypt** are estimated at USD 26bn in addition to around USD 12bn in the pipelines, according to a recent report from the General Authority for Investment and Free Zones.
- **Iraq** has agreed to monitoring of its economic policies by the **IMF**, as a pre-condition for a possible **funding program** in 2016.
- **Jordan's 2016 budget** estimates spending of JOD 8.496bn and a projected deficit of 3.1% of GDP; domestic revenues are expected to grow by nearly 11% to JOD 6.775bn, while grants are projected to reach JOD 814mn. The budget was presented by Dr. Umayya Toukan, who was later in the week replaced as finance minister by investment banker Omar Malhas, in a surprise move.
- **Inflation in Jordan** went down by 0.7% yoy in the Jan-Oct period, thanks to lower energy prices; for the month of Oct, inflation was 1.2% yoy.
- **Kuwait's** finance minister disclosed that the government may issue either USD or KWD-denominated **bonds to financial institutions** to help cover a fiscal deficit. Without specifying any details, he stated "we will announce any development [...] in due course".
- **Kuwait's** CMA released rules related to issuance of Islamic bonds: the rules outline conditions that sukuk must meet to be tradeable, and describe specific formats such as instruments with perpetual tenors and those which can be converted into shares. Sukuk issues must be approved by both the CMA and the central bank; it also set out the obligations and powers of custodians of the instruments.
- The **Kuwait** Investment Authority, has allocated an additional USD 500mn to investment projects in **Russia** in partnership with the Russian Direct Investment Fund (RDIF); this follows a USD 500mn investment agreed with RDIF back in 2012.

- **Net wealth per adult in Lebanon** was down 1.7% yoy to USD 30,207 at end-June this year, and compared to a peak of USD 35,946 at end-2007, reported Credit Suisse.
- The EU announced the allocation of additional EUR 25mn in **funds to Lebanon** for private sector development, technical assistance to government and civil societies; EUR 15mn is earmarked for the private sector.
- Qatar Financial Centre (**QFC**)'s new **regulations**, expected early next year, will provide QFC-registered companies more access to the local market, including listing on the Qatari bourse and also help launch Exchange-Traded Funds.
- The economic adviser to **Qatar**'s Emir disclosed in an interview that falling oil prices would not affect Qatar's ongoing preparations for the FIFA 2022 World Cup.
- **Inflation in Qatar** was up 0.2% mom and 1.7% yoy in Oct, on costlier food and beverages (+2.2% yoy), as well as higher rents and utility (+1.8% yoy).
- **Qatar**'s minister of economy revealed that the **private sector** pumped an estimated QAR 30bn into various government sector projects over a period of one year.
- **Saudi Arabia**'s deputy oil minister disclosed that the **oil and gas industry** cancelled around USD 200bn of investments this year, and energy companies were planning to cut another 3 to 8% from their investments next year, making this the first time since mid-1980s that industry **cut spending for two consecutive years**.
- **Saudi Arabia** plans to issue **sovereign debt** as early as next year, reported Reuters, citing industry sources. Authorities had not yet finalised the plan, but were making progress.
- The **three-month Saudi interbank offered rate** jumped to 1.00375% on Monday, its highest level since 2009, from around 0.78% in late July. The central bank governor attributed this increase to the expectations about a US rate hike and seasonal factors, vis-a-vis concerns about

liquidity tightening.

- **Saudi Arabia** has submitted plans to combat **climate change**, with its aim to reduce expected carbon emissions by up to 130mn tonnes a year by 2030, “through contributions to economic diversification and adaptation”. No details were provided of current emissions, but estimates place it at 527mn tonnes of carbon dioxide a year, or 1.22% of the world total.
- **Saudi Arabia** reported 9.7% yoy growth in domestic and international commercial **air traffic** in 2014, moving around 74mn passengers, of which 12mn were domestic travellers.
- **IMF’s** Lagarde, addressing a **GCC finance ministers meeting**, reiterated that GCC needs to introduce radical tax and spending reforms, in addition to slowing current spending growth. She also cautioned that there was no further room for public wage bill growth.
- Saudi Arabia Monetary Agency had withdrawn as much as USD 50-70bn from its sovereign wealth fund (**SWF**) asset managers over the past six months, as per findings from a Moody’s report on SWFs. With 73% of SWF assets funded from oil and gas revenues, countries have begun tapping these funds to finance the country’s budget deficits.
- **GCC’s family owned businesses** face key credit risk challenges including ownership restrictions, corporate governance limitations and a lack of geographical or cash flow diversification, according to a recent Moody’s report.
- Around 68% of MENA business leaders and senior compliance specialists expect to spend significantly more on sanctions and financial crime compliance over the next 12 to 18 months, it was revealed at EY’s **MENA Sanctions and Financial Crime** Symposium. Furthermore, about 74% thought that MENA businesses were set for a significant increase in compliance risk scrutiny from global banks and regulators.

UAE Focus

- The **Dubai Economy tracker** witnessed a sharp dip in business activity in Oct, dropping to 51.4 from Sep's 56, with only 18% of surveyed firms reporting higher output/ business activity last month. Growth in new orders also eased, but remained relatively strong with an index reading of 55, while the new work index slipped to 51 from 56.9.
- **Emirates Airlines** plans to raise "a lot of" **debt** next year to help pay off maturing debt of about USD 1bn and finance aircraft deliveries, revealed its President. Separately, the company's Chairman and CEO stated that they were looking to raise anywhere between USD 500mn-1bn in either conventional or Islamic bonds.
- **Tourist spending** in the **UAE** grew by 10% yoy in the first three quarters of 2015, according to a Network International report, with the food and beverage sector witnessing the highest growth (30% yoy), with a 78% growth in Saudi spending making them the top spenders in the sector. The fashion sector grew 4% in Q3, driven by Saudis (33% growth), Qataris (68%) and Nigerians (87%).
- **Card transactions** in the **UAE** by Russian and Chinese visitors were down by 57% and 20% respectively in Q3 compared to a year ago, according to Network International data. According to the company's CEO, card use growth in MENA is expected to be around 10-12% this year compared to 30% in recent years.
- **Mobile phone subscriber** numbers in the **UAE** grew 3.72% in Q3 this year to 16.98 million, mainly driven by prepaid customers, reported Gulf News, based on data from etisalat and du.
- **Dubai** ranks third behind Shanghai and Beijing as the **most globalised among emerging cities**, according to a report by JLL. These emerging cities will have to compete for investments against the 'Big Six' – London, New York, Paris and Tokyo, Hong Kong and Singapore –

which account for 22% of the overall global real estate investment flow, based on the period Q3-2012 to Q2-2015.

Media Review

Belt tightening in Saudi Arabia

<http://www.economist.com/news/middle-east-and-africa/21674403-will-it-be-enough-start-something>

IMF's Christine Lagarde on Economic Challenges for the GCC

<http://www.imf.org/external/np/sec/pr/2015/pr15502.htm>

The IEA Report

<http://www.energypost.eu/energy-ship-changes-course/>

http://www.worldenergyoutlook.org/media/weowebseite/2015/151110_WE02015_presentation.pdf

US banks need yet more capital

<http://www.ft.com/intl/cms/s/0/cb24a27a-87bb-11e5-9f8c-a8d619fa707c.html#axzz3r5DtWNIb>

The Saudi-Russia rivalry and the Iran threat

<http://www.bloomberg.com/news/articles/2015-11-12/russia-s-oil-rivalry-with-saudis-masks-the-bigger-iranian-threat>

Is the stock market entering a new regime?

<http://www.bloomberg.com/news/articles/2015-11-12/barclays-we-re-about-to-enter-a-new-stock-market-regime>

The BRICS era is over, even at Goldman Sachs

<http://qz.com/544410/the-brics-era-is-over-even-at-goldman-sachs/>

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