

# Weekly Economic Commentary – Nov 22, 2015

## Markets

On Friday the close on Wall Street was the cherry on the cake for a strong weekly performance, with the S&P 500 recording its biggest weekly gains (+3.3%) since Dec 2014 while the Dow's weekly gain was a 6-week record. European shares scored their best week in a month with a benchmark index rising to three-month highs. Also emerging markets and regional markets advanced at a brisk pace. In preparation for the Fed rate hike the yield on two-year Treasury's reached a five years high, narrowing the spread vs. the 10-year note to a 7-month low. The USD gained across the board on hawkish signals from the Fed. The oil price was supported by the decline in rigs count and the minimal increase in US oil inventories, but the market remains oversupplied. Gold finished the week near its nadir in more than five years.

## Global Developments

### **US/Americas:**

- **The FOMC Minutes** revealed that most Fed officials agree that time for a rate hike will be ripe by the December meeting. "A number of participants" underscored that a hike would signal confidence in the outlook, reduce uncertainty in financial markets, lower the risk of financial imbalances caused by low interest rates, and avoiding a loss of credibility.
- **US inflation** increased by 0.2% mom (0.2% yoy) in Oct, as expected. Food prices gained 0.1% mom, while energy prices increased by 0.3%. The Core CPI—excluding food and energy—was up 0.2% mom (1.9% yoy). The gain in the core is driven by a 2.0% mom hike in hospital services

prices.

- **US industrial production** dropped -0.2% mom in Oct, following a decline of -0.2% the previous month. Mining and utilities were the main drags.
- Only 0.38% of **mortgages in the US** went into foreclosure during Q3, the lowest rate since Q2 2005. About 3.57% of mortgages were at least 90 days past due, the lowest rate since Q3 2007, confirming that the mortgage crisis is practically over and the real estate recovery is solid.
- **Initial unemployment claims** dropped 5,000 to 271,000. The 4-week moving average rose 3,000 to 270,750 but stays close to record lows since the 1970s. Continuing claims dipped 2,000 to 2.175 mln, little changed from the prior week. The insured unemployment rate was stable at 1.6%. These figures underscore that the job market is tightening.
- The **Conference Board leading indicators index** rebounded by 0.6% in Oct, after 2 consecutive -0.1% drops in Aug and Sep. In the 6 months to Oct, the index rose 3.1% yoy.
- The **NAHB Index of Builder Confidence** decreased to 62 in Nov, from 65 in Oct. Despite the decline this month, builder sentiment is still close to its highest level this year.
- Residential construction took a sharp hit during Oct, as **Total Housing Starts** fell -11% mom and are down by -1.8% yoy.
- The **St. Louis Fed Financial Stress Index** fell to -0.846 for the week ended 13<sup>th</sup> Nov, 5% lower than earlier. The index remains comfortably below 0, indicating below average financial stress.

## Europe:

- **Euro zone consumer prices index** rose 0.1% yoy and fell -0.1% mom in Oct indicating that the inflation pick up

targeted by the ECB is not in sight.

- The **eurozone's current account surplus** more than doubled (nsa) to EUR 33.1 bn in Sep, from EUR 14.6 bn in Aug. Germany is the epicenter of this performance with peripheral countries slowly catching up.
- **Investor confidence of Germany** has been improving as the ZEW indicator of economic sentiment rose from 1.9 in Oct to 10.4 in Nov.
- **Germany new-home prices** rose 4% yoy in Oct, following a 4.6% gain in Sep.
- **German producer prices** index fell -2.3% yoy in Oct, following a drop of -2.1% in Sep.
- **Domestic credit lending by Spanish banks** fell -3.4% in Sep that is decelerating compared to a -4.2% decline in Aug.
- **The UK CPI** dropped -0.1% yoy and -0.1% mom in Oct.
- **The UK retail sales index** rose 3.8% yoy in Oct, down from a revised 6.2% yoy increase in Sep. **The UK's output producer price index fell** -1.3% yoy and -1.8% mom in Oct.
- **Russia's retail sales** fell -11.7% yoy in Oct after declining -10.4% in Sept.
- **Russia's industrial output** declined -3.6% yoy in Oct second straight month of decline.

## **Asia and Pacific:**

- **Foreign direct investment** into **China** rose 2.8% yoy to USD 8.8bn in Oct, but were down from USD 9.6bn in Sep. The slowing economy, lower interest rates and the expected devaluation of the yuan are sapping the appetite of foreign investors.
- **Japan's GDP** contracted again -0.2% qoq in Q3, after -0.3% qoq in Q2. Consumer spending softened further because of weak wage growth and falling consumer confidence, while the fading effects of the cheap yen and falling oil prices kept a lid on net exports.

- **Japan's trade deficit** narrowed to -JPY 200bn (sa) in Oct from -JPY 310bn in Sep, driven by falling imports, partially offset by a decrease in exports.
- **India's wholesale prices** fell -3.8% yoy in Oct, following a -4.5% fall in Sep. Low global commodity prices are the primary cause of such disinflation trend.
- **India's trade deficit** narrowed to USD 9.8 bn in Oct, down from USD 10.5 bn in Sep.
- **Singapore's non-oil domestic exports** fell -0.5% yoy in Oct, after a 0.3% increase in Sep.
- **Thailand's GDP** expanded 2.9% yoy in Q3, slightly up from a 2.8% rise in Q2.

**Bottom line:** The new normal seems to be characterized by low nominal growth rate and as a consequence by low interest rates. Interestingly, the minutes of the FOMC revealed the Fed's staff estimated that the short-run equilibrium real rate was currently around zero. FOMC members were of the view that the short-run equilibrium real rate would rise over time, "but probably only gradually." The FOMC members "noted that the longer-run downward trend in real interest rates suggested that short-run rates would likely remain below levels that were normal during previous business cycle expansions, and that the longer-run normal level to which the nominal federal funds rate might be expected to converge in the absence of further shocks to the economy ... would likely be lower than was the case in previous decades."

### **Regional Developments**

- **Bahrain** is planning **further subsidy cuts** next year, including fuel and electricity, revealed the minister for industry and commerce. Furthermore, the government is seeking to raise revenues by imposing charges on government services that are currently free or carry minimal fees – but these are likely to be carried out by each department independently.
- **Bahrain** launched a USD 1.5bn **dual-tranche bond** last

week, reported Reuters, with demand for the deal reaching USD 2.4bn. The deal is split between a USD 700mn Jan 2021 bond at a yield of 5.875% and a USD 800mn Jan 2026 note at 7%.

- **Unemployment rate** in **Egypt** was up slightly to 12.8% in Q3 from Q2's reading of 12.7%, but significantly lower than the 13.1% rate in the same period of last year. Unemployment among 15-29 year-olds rose to 27.4% in Q3 (Q2: 26%).
- **Jordan** and **UAE** embarked last week on the 5th round of talks related to the double taxation avoidance agreement.
- **Standard & Poor's lowered Oman's** long-term local and foreign currency sovereign debt ratings to BBB-plus from A-minus, as widely expected, given the strain on revenues from lower energy commodities prices. The note stressed that "a period of sustained low oil prices will impair Oman's fiscal and external balances more than we had previously expected."
- The Dubai Mercantile Exchange announced that **Oman's Ministry of Oil and Gas** has become the first customer of its recently launched "DME Auctions" platform.
- Oman's production of **crude oil and condensates** stood at 29.95 mn barrels in Oct this year, which indicates a fall of -2.41% mom.
- **Credit disbursement in Oman** accounted for 65% of total credit and increased by 10% to OMR 18.2bn in the 9 months to Sep 2015. Credit to the private sector increased by 10.1% to reach OMR 15.9bn during the same period.
- **Qatar's mega projects** – including World Cup 2022, Doha Metro and the expansion of Hamad International Airport – are expected to "stimulate" the economy for at least the next seven years, according to BMI. Household spending is also expected to grow, with annual growth of average expenditure per household posting a strong rate of 12.1%.

- **Qatar**'s central bank governor stated that **liquidity levels** are "comfortable" at the moment, also clarifying that the recent drop in the size of Treasury bills issues (from QAR 4 to 2bn) was not indicative of tightening liquidity.
- **Saudi Arabia** is planning to issue **local currency bonds**, worth around SAR 20bn, this week according to Maal financial website. This would bring total issuances from government to local banks to SAR 95bn this year.
- **Saudi Arabia** will **privatise its airports** and its related services beginning in Q1 next year, in an attempt to diversify revenue and with an aim to boost productivity and efficiency at its airport systems, according to the General Authority for Civil Aviation.
- **Middle East energy projects** require an estimated USD 700bn in funding over the next 10 years, revealed Saudi Arabia's petroleum minister.
- The **IIF** forecasts **oil prices** to fall around the USD 50-60 range in the next 3 to 4 years. While banking systems in the GCC are likely to face tighter liquidity conditions and rising interest rates, the IIF also cautioned about weakening asset quality and profitability if oil slump is prolonged.
- With refugee and reconstruction financing a priority, the **IDB** plans to issue **sukuk**, along with the World Bank, for **reconstructing** Yemen.

### **UAE Focus**

- **UAE** central bank's **foreign assets** increased 3.9% yoy to AED 285.5bn in Oct, from AED 267.1bn the month before.
- **Inflation** in **Abu Dhabi** recorded a dip of -0.6% mom in Oct as transport costs fell by 4.5% mom on lower fuel prices. CPI was down to 5.5% yoy compared to Sep's 6.1% print. A similar picture was evident in **Dubai: inflation** was down -0.4% mom and at 3.3% yoy in Oct, with transport costs slowing to 1.2% yoy (Sep: 5.5%) while

housing and utility costs were up 6.4%.

- The CEO of Investment Corporation of Dubai called for more **support from the financial sector** to undertake projects ahead of and related to the **Expo 2020**. He revealed that while all funding was planned and secured for the expo, mainly from the government, ideas of cooperation would be welcome from the private sector and/or international investors. Additionally, he also mentioned that Dubai's Department of Finance **did not have any immediate plans to raise debt**.
- The **UAE banking sector** is likely to witness a surge in **SME loan impairments** or defaults, ranging between AED 5-7bn (roughly 0.4% of the total banking assets) for the full year, as per the chairman of the UAE banking association. Separately, the central bank governor revealed that overall NPLs was down to 6.3% as of Sep 2015, from 8.6% in H2 2014. He also disclosed that a credit guarantee scheme was being set up to help reduce the risk of default for potential lenders (without mentioning further details).
- **Sport** contributes USD 1.08bn to **Dubai's** economy per annum, with golf providing about 25% of the revenue, according to a Deloitte report. This includes indirect revenue earnings as well, like hotel stays, airline tickets etc.

### **Media Review**

#### **The Bermuda triangle of liquidity in bond and money markets**

<http://seekingalpha.com/article/3697726-3-bizarre-things-the-market-is-doing-right-now?ifp=0>

#### **Will OPEC maintain its gain in markets shares?**

<http://seekingalpha.com/article/3703266-is-opec-increasing-its-market-share-due-to-low-oil-prices>

#### **UAE central bank is closely monitoring banks' performance**

[http://www.zawya.com/story/UAE\\_to\\_closely\\_monitor\\_risks\\_in\\_the\\_banking\\_sector-GN\\_16112015\\_171151/](http://www.zawya.com/story/UAE_to_closely_monitor_risks_in_the_banking_sector-GN_16112015_171151/)

## **The Global empathy gap between Beirut and Paris**

<http://www.economist.com/blogs/graphicdetail/2015/11/daily-chart-13>

## **Rising dollar cost hitting banks' returns on EMEA lending**

[http://www.zawya.com/story/Rising\\_dollar\\_cost\\_hitting\\_banks\\_returns\\_on\\_EMEA\\_lending-TR20151116nL3N13B5DQX2/](http://www.zawya.com/story/Rising_dollar_cost_hitting_banks_returns_on_EMEA_lending-TR20151116nL3N13B5DQX2/)

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