

Weekly Economic Commentary – Nov 29, 2015

Markets

Stock markets are in a wait-and-see mood before the critical FOMC meeting which will mark the start of a tightening cycle. Furthermore volumes were low due to Thanksgiving and hence the S&P was little changed on the week although European indices crawled up on expectations of laxer monetary policy in Euroland. On the contrary China and emerging markets bourses came again under pressure on Friday recording heavy losses. Regional markets were mixed, but Egypt continues to disappoint with a drop of over 16% since November 5 when a bomb exploded on a Russian plane over the Sinai. Diverging monetary stances across the Atlantic gave a boost to the greenback with the dollar index reaching a 8-year high. The euro hovered near seven-month lows against the dollar and lost ground even against the yen. Crude oil prices ended sharply lower on Friday erasing the gain registered on Monday and ending the week almost unchanged. Gold prices plunged again as dollar strength continued to sap investors' appetite for the metal.

Global Developments

US/Americas:

- **US GDP** expanded at a 2.1% qoq ann in Q3, up from the initial estimate of 1.5%, but well below the 3.9% in Q2. Most of the revision came from higher inventories.
- The **Markit Flash US Manufacturing PMI** fell to 52.6 in Nov from 54.1 in Oct. This records the lowest index reading since Oct 2013 as the strong dollar and weaker global demand hurt new export orders.
- **US existing home sales** declined -3.4% mom in Oct after a strong 4.7% in Sep. Existing-home price appreciation

accelerated in the three months ended in Sep relative to the same period in Aug. The **Case-Shiller** 20-city composite index was up 5.5% yoy vs 5.1% in Sep. The 10-city composite index is up by 5% yoy vs 4.7% in Sep.

- The **Conference Board's Consumer Confidence Index** plunged to 90.4 in Nov, the lowest since September 2014, on pessimistic assessment over the near term and current conditions.
- The **Chicago Fed National Activity Index** decreased to -0.04 in Oct from -0.29 in the previous month, hinting a below-average growth rate.
- The **probability that the US economy will fall into recession** in 6 months fell to 14% in Oct from 17% in Sep.
- **Initial unemployment claims** fell 12,000 to 260,000 and the trend remains favorable as the 4-week moving average remains unchanged at 271,000. Continuing claims rose 34,000 to 271,000 and insured unemployment rate was unchanged at 1.6%.
- The final **University of Michigan Consumer Sentiment Index** rose to 91.3, 1.3 pts above Oct's final index, recording the 2nd increase since Jun.

Europe:

- **The euro area flash composite PMI** rose 0.5pt to 54.4 in Nov, reflecting similar-sized expansions in both manufacturing and services sectors. Within the manufacturing PMI, new orders rose 0.8pt (to 53.4), while stocks of finished goods fell 0.9pt. Output and employment gained 0.5pt to 53.9 and 1.1pt to 51.9, respectively. In services PMI both 'incoming new business' and 'business expectations' advanced 1.0pt, to 55.0 and 62.0 respectively.
- **The euroarea Conference Board Leading Economic Index** was 108.2 in Oct, up 0.4% mom.
- Growth of the **eurozone's M3 money supply** accelerated to

5.3% yoy in Oct (Sep: 4.9%).

- The **euro zone's economic sentiment indicator** ticked up to 106.1 in Nov from 105.9 in Oct
- The first breakdown of **German GDP** for Q3 confirmed the 0.3% qoq expansion, marginally weaker than the 0.4% in Q2. Net trade was a drag – exports increased by 0.2% qoq, the worst figure since Q4 2012 – while imports rose 1.1%. Domestic demand however is picking up thanks to consumption.
- **Spain's GDP** grew 3.4% yoy in Q3, from 3.1% yoy in Q2.
- **The German Ifo Business Climate Index** touched 109 in Nov from 108.2 in the previous month, driven by uplifts in both the current assessment and the business expectations sub-indices.
- **The German composite PMI** rose 0.7pt to 54.9 in Nov, resulting from a 0.5pt increase in manufacturing to 52.6 and 1.1pt increase in services to 55.6.
- **French composite PMI** fell in Nov by -1.3pt to 51.3. The decline in services by 1.4pt to 51.3 counterbalanced the 0.2pt improvement to 50.8 in manufacturing.
- The **ECB in its Financial Stability Report** pointed at possible rapid re-pricing of global risk premia, starting from emerging markets, if the Fed tightening cycle proceeds faster than expected.
- **Italy's retail sales** declined -0.1% mom in Sep, following a revised 0.2% mom rise in Aug.
- **The UK consumer confidence index** fell by 1 point in Nov, whereas **France's consumer confidence index** did not budge from 96 in Nov, and **Italy's consumer confidence** advanced to 118.4 from 117 in Oct a record since 1994.
- **The UK Nationwide Housing Price Index** rose 0.1% mom in Nov, following a 0.5% increase in Oct.

Asia and Pacific:

- **Japan's unemployment rate** decreased to 3.1% in Oct, from 3.4% in Sep.

- **Japan's CPI** fell -0.1% yoy in Oct for the third consecutive month.
- **Japan workers' household spending** fell by -2% yoy in Oct, after declining by -1.6% in Sep.
- **Singapore's GDP** grew 1.9% yoy in Q3, from an upwardly revised 1.8% yoy in Q2, helped by better than expected gains in service sector output.
- **Singapore's industrial output** dived -5.4% yoy in Oct, down from Sep's -4.7%. Electronics production collapsed -14%, reflecting the slump in global demand for computers.
- **Taiwan's is** in technical recession as in Q3 GDP dropped -0.3% qoq and -0.6% yoy.
- **Taiwan's industrial production** plunged -6.2% yoy in worse than the -5.3% in Sep. Exporters continues to feel the pinch from China's slowdown.
- **Hong Kong's monthly trade deficit** narrowed to HKD 29.7bn in Oct (Sep: HKD 36.4bn).
- **The Bank of Korea's consumer confidence** index climbed 1 point in Nov to 106.
- **Philippines GDP** growth accelerated to 6% yoy in Q3, from an upwardly revised 5.8% in Q2.

Bottom line: The slow improvement of a generally weak global economy found confirmation this week from the PMI figures in the euro area. A composite PMI of 54.4 is compatible with growth in the order of +0.5% qoq. Also the upward revision of the US GDP went in the same direction. The main concerns continue to come from emerging markets as highlighted by bleak figures on industrial production in Singapore and Taiwan and news of an impending budgetary crisis in Brazil.

Regional Developments

- **Egypt** is in the process of negotiating two **World Bank loans** worth USD 1bn to fund development projects: valued at USD 500mn each, the loans are meant for agriculture/irrigation projects and an economic development

programme for Upper Egypt's governorates.

- **Jordan's exports** fell 7.2% yoy to JOD 4.16bn in Jan-Sep period, while imports dropped by 13.2% to JOD 10.58bn.
- **Jordan's** Deputy PM revealed that the **education** ministry needs additional funds of USD 27mn to cover the cost of more than 143k **Syrian students** enrolled in the public schools.
- **Renewable energy investments** in **Jordan** have exceeded JOD 1bn, with this figure expected to rise further given the pipeline of projects. Favourable conditions for these projects include more than 300 days of sunshine as well as wind speeds that can reach as high as 7.5-11.5 metres per second. Renewable energy projects with a total capacity of 1,600MW will be operational by 2018, disclosed the Energy minister.
- **Kuwait's** finance minister was quoted in *al-Rai* newspaper that the country was studying a proposal to **raise fees** for its **services**. Part of the revenue diversification plan, these fee hikes would be permanent, even when oil prices rise in the future.
- The one-year **dollar/Kuwaiti dinar forwards** jumped as high as 462.80 points last Tues, recording their highest level since Mar 2009, but still lower than the 2008 peak. This reflects the shortage of dinars in the market amidst tightened liquidity in the backdrop of lower oil prices.
- The **Omani** government is studying **measures to boost revenues** including taxes on expatriate's remittances, increasing taxes on real estate rent contracts, as well as raising electricity tariffs, traffic fines, vehicle registration, renewal and insurance fees, lower allowances for government employees on mission.
- The Undersecretary of **Oman's** Finance ministry stated that that **the government budget deficit** amounted to OMR 2.7bn until the end of Aug, due to lower oil revenues that account for up to 75% of total revenues.
- Moody's expects **credit growth in Oman** to slow down to

7-9% throughout the remainder of 2015 and in 2016, from 11% in 2014. Moody's forecasts real annual **GDP growth** to slow to an average of 2-3% until 2019, from an average of 4.9% between 2005 and 2014.

- The one-year **dollar/Qatari riyal forwards** rose as high as 312 points last week, their highest level since Feb 2009, after concerns about the country's progress in obtaining a syndicated loan of up to USD 10bn from banks. Qatar aims to complete the deal by the end of this year, but there have been no agreement yet on the pricing of the loan.
- Asia – more specifically Japan, South Korea and India – remains **Qatar's top trade partner** in Q3 this year, representing 71.4% and 34% of Qatar's exports and imports respectively. The European Union (15.9% and 29.2%) and the GCC (9.4% and 16.2%) followed.
- **Loan-deposit ratio** in **Qatar** increased to 115% in Oct (Sep: 112%) as public sector deposits declined (-3.8% mom) amidst higher credit to the sector (+2.2% mom).
- **SAMA's net foreign assets** declined by 1.0% mom and 12.8% yoy to SAR 2.401 trillion in Oct – the lowest level since late 2012; holdings of foreign securities were down 4.5% mom to USD 427bn.
- **Saudi Arabia** may **reduce** energy and water **subsidies**, stated the Deputy Crown Prince in an interview with the *New York Times*. Other potential reforms would include VAT, taxes on sugary drinks, tobacco and the like, as well as privatise and tax mines and undeveloped land; he also revealed intentions of reducing domestic oil consumption by installing nuclear and solar electricity capacity.
- Reuters reported that Saudi **Aramco** has asked oilfield service companies to extend discounts to next year as the company tries to reduce costs.
- **Saudi** cabinet has agreed to impose a 2.5% annual **tax on unused plots of land** designated for residential or commercial use in urban areas; this move is expected to

bring in around SAR 75bn in additional revenues to the government. The Housing Ministry had estimated that empty plots made up around 40% of Riyadh in 2013.

- **Oman's first direct road link with Saudi Arabia** is in its advanced stage of development and is expected to boost trade and tourism links between the two states. Muscat spent more than OMR 200mn on building the road (~160km) while Saudi Arabia has spent around SAR 1bn (~566km). This road also features among a number of freight corridors identified by the recently unveiled Sultanate of Oman Logistics Strategy 2040.
- JP Morgan forecasts that **bonds issued in foreign currency** by companies in the Middle East-Africa region would rise by USD 4bn yoy to a record high of USD 39bn in 2016.
- Bahrain-based International Islamic Financial Market (IIFM) launched a **standard contract template for sharia compliant cross currency swaps** last week. The standard involves two murabaha contracts, where each party simultaneously agrees to grant each other an undertaking to purchase assets at specified future dates on the basis of murabaha transactions. This enables a party to raise funds in one currency for a certain period of time against a contract in another currency.

UAE Focus

- **UAE fuel prices** announced for Dec declined by about 1.15%, in line with global oil prices.
- The Ruler of **Dubai** launched a AED 2bn **innovation fund**, to be established in collaboration with local banks and finance houses, and to be managed by the Ministry of Finance. Separately, the Minister of Economy revealed that UAE is aiming for innovation to contribute to 5% of the GDP by 2021.
- **Bilateral trade** between **China** and **Dubai** stood at USD 36.4bn in Jan-Sep this year, versus USD 54.8bn in 2014,

revealed the economic and commercial counsellor at UAE's Chinese embassy.

- **Emirates** airlines contributes over USD 848mn annually to India's economy, having supported over 86k Indian jobs and generated USD 1.7bn in foreign exchange earnings. The NCAER report estimates that if Emirates were to operate an additional 4,500 weekly seats between India and Dubai, an additional 4,800 jobs would be created and foreign exchange earnings would rise to USD 1.8bn with the arrival of almost 40k more tourists a year.
- **Dubai's residential property prices** declined for five consecutive quarters and are likely to fall a further 3-5% over the next 12 months, according to a Cluttons report.

Media Review

Gulf banks rush to loan market

http://www.zawya.com/story/Gulf_banks_rush_to_loan_market_to_cope_with_liquidity_squeeze-TR20151123nL8N13I2UDX2/

Omani banks are feeling the pinch

<http://gulfnews.com/business/sectors/banking/omani-banks-face-increased-pressure-on-loan-growth-and-margins-1.1624091>

The recovery in the real estate market as not lifted US consumption

<http://www.wsj.com/articles/why-the-housing-rebound-hasnt-lifted-the-u-s-economy-much-1448221840>

A rare optimistic view on emerging markets bonds

<http://www.bloomberg.com/news/articles/2015-11-26/hsbc-sees-pain-giving-way-to-gains-in-emerging-bonds-next-year>

Central banks are still testing the limits to how low interest rates can go

<http://www.economist.com/news/finance-and-economics/21679231-central-banks-are-still-testing-limits-how-low-interest-rates-can-go-bankers>

GCC corporates to drive surge in M&A deals across MENA

http://www.zawya.com/story/GCC_corporates_to_drive_surge_in_MENA_MA_deals-GN_22112015_231124/

Powered by:

