

# Weekly Economic Commentary – Dec 6, 2015

## Markets

On stock markets last week was lackluster: the S&P 500 and DJ remained almost constant, while the European indices fell victim of bullish expectations over aggressive moves by the ECB which did not fully materialize. A wind of pessimism blew also on emerging markets and Japan while regional markets suffered another plunge due to weak oil prices. The exception was Egypt where expectations of substantial moves on FX policy gave a boost to shares. The euro snapped back up after the decision of the ECB was announced. The main oil grades took a hit when OPEC announced that production quotas would not be modified. Gold on the contrary benefitted from the confusion, which prevailed on financial markets and the unclear monetary stance in major economies.

## Global Developments

### **US/Americas:**

- The **US non-farm payroll in Nov** increased by 211,000 (in line with market expectations) confirming the robust trend in job creation. Revisions to Sep and Oct's figures added another 35,000 units. **Unemployment rate** remain unchanged at 5%.
- The **ISM manufacturing index** dropped to 48.6 from 50.1 in Nov, recording the 5th consecutive monthly decline and hitting recession territory. It is the first contraction in manufacturing activity since Nov 2012 and the sharpest since Jun 2009.
- The **ISM non-manufacturing index** dived from 59.1 in Oct to 55.9 in Nov, however, the index remains near its 2014 average of 56.2.

- The **pending home sales index** increased to 107.7 in Oct, up by 0.2% mom from 106.8 in Sep. The index ended its long losing streak, posting the first gain since Jul. The **Black Knight house price index** rose 0.2% mom (5.8% yoy) in Sep.
- **Initial unemployment claims** increased 9,000 to 269,000. The 4-week moving average dropped slightly to 269,250.
- **Non-farm business productivity** increased 2.2% qoq in Q3 up from 1.6% in Q2. Output increased by 1.8% and compensation per hour increased 4%.
- **The US trade deficit** widened in Oct as exports dipped to a 3-year low. The trade gap rose 3.4% to USD 43.9bn, confirming that the effects of a stronger dollar persist.
- **Agricultural prices** continued their downward trend in Oct as prices received by farmers decreased 9.2% yoy.

## Europe:

- **The ECB governing council** took 4 main decisions in an attempt to meet its inflation target of 2% and anchor medium-term inflation expectations: (i) a 10 bp cut in the deposit rate to -0.3%; (ii) extension of the asset purchases (QE) to “end of March 2017, or beyond” (but the monthly amount will remain at EUR 60bn, disappointing markets); (iii) sub-sovereign debt was added to the eligible assets; (iv) reinvestment of principal payments of maturing securities.
- **German manufacturing orders** surged 1.8% mom (-1.5% yoy) in Oct, following a revised -0.7% mom decrease in Sep (-0.6% yoy) and confirming that the German economy remains resilient.
- **The eurozone’s unemployment** rate was 10.7% in Oct vs 10.8% in Sep.
- **The eurozone’s consumer price inflation** was flat in Nov after a 0.1% increase in Oct.
- **Eurozone producer prices** declined -3.1% yoy in Oct,

following a similar drop in the Sep.

- **Eurozone retail sales** volume dipped -0.1% mom in Oct, while sales values growth was down slightly mom, after a -0.1% mom drop in Sep.
- **Spain's industrial production** growth ticked up 4.1% yoy in Oct from a 3.8% yoy gain in Sep.
- **Italy's** Statistical Institute forecasted a **GDP growth** of 0.2% qoq for Q4, which would translate into 0.7% yoy for 2015, two decimals below the government's target.

### **Asia and Pacific:**

- The IMF approved **China's yuan entry** in the basket of the SDR recognizing the importance of its role in global trade and putting pressure to assure its full convertibility in the near future.
- **India's GDP** grew 7.4% yoy in Q3, up from 7% in Q2. Consumption and investment were the main drivers, while the external sector exerted a drag. Agriculture output was hit by weak monsoon precipitations but manufacturing output surged.
- The Nikkei-Markit **composite India PMI** plunged to a 5-month low of 50.2 in Nov against 52.6 in Oct. Manufacturing PMI fell to 50.3, from 50.7 in Oct, its weakest score since 2013.
- **Japan's consumer confidence** rose in Nov to 42.6 from 41.5 in Oct. All subcomponents were quite perky, with overall livelihood and durable goods purchases posting the largest rise. Inflation expectations ticked up.
- **Japan's industrial production** expanded 1.4% mom in Oct accelerating from a 1% gain in Sep. Auto and electronic parts and devices were the main drivers of the gain.
- **Japan's retail sales** rose 1.8% yoy in Oct reversing a 0.1% decline in Sep. Sales were buoyant across many sectors.
- **Japan's housing starts** dropped -2.5% yoy in Oct, down from a 2.6% gain in Sep. A bearish economic outlook is

expected to continue weighing in on the housing market.

- **Australia's GDP** growth accelerated to 0.9% qoq in Q3 from an upwardly revised 0.3% in Q2. Hard commodity exports and household consumption were the bright spots.
- **South Korea's GDP** grew 1.3% qoq in Q3 up from a 0.3% expansion in Q2. Both private consumption and foreign investments registered a jump.
- **South Korea's headline inflation** rose to 1% yoy in Nov from Oct's 0.9%. Subdued energy prices are putting a lid on prices.
- **South Korea's industrial production** slowed its pace of growth in Oct to 1.5% yoy vs 2.8% in Sep. Weak global demand

**Bottom line:** The employment situation in the US continues to sustain hopes that the slowdown in emerging markets and the mediocre performance of the euro area will not push the global economy in recessions, although the PMI reminds us that the rosy picture is somewhat tainted. The negative reaction of financial markets to the ECB measures underscores once again the perverse relation between unconventional monetary tools and inflated asset prices, which continue to deflect pressure from governments unwilling to pass structural reforms which could boost long term sustainable growth. The inclusion of the yuan in the SDR basket is a cautious vote of confidence of the international community in the ability of the Chinese leadership to set an aggressive course for the liberalization of its capital and currency markets.

### Regional Developments

- **Egypt's foreign reserves** rose to USD 16.422bn at end-Nov, up slightly from the USD 16.415bn recorded the month before.
- Soon after the appointment of and a meeting with the new central bank governor, **Egypt's** president's office announced that the **central bank** planned to **inject dollar liquidity** into the market later this month and is also

planning an exceptional foreign exchange auction, without providing any further details.

- **Egypt's** central bank revealed last week (after the new governor took up his post) that it had **repaid foreign portfolio investors** USD 547.2mn, clearing the entire backlog built up during a long-running dollar shortage.
- **Money supply** (M2) in **Egypt** was up 19.6% yoy to EGP 1.87 trillion in end-Oct.
- Last week saw multiple news releases about **investments into Egypt**: Kuwait's total investments in the country are estimated at USD 2.8bn in 964 projects; around 26 Saudi firms are awaiting cabinet approval to begin investments worth around EGP 35bn; France is the 4th largest EU investor in the country, with investments around the USD 1.4bn mark; China expects to sign deals worth around USD 60mn in a delegation visit slated for next month.
- **Egypt** inaugurated the **largest wind farm in MENA** last week: the farm is expected to generate up to 800 GWh, enough to power 40,000 households.
- The European Bank for Reconstruction and Development (**EBRD**) announced plans to allocate upto USD 500mn for about 40 **solar projects** in **Egypt** next year, to support the new solar energy programme. Egypt aims to construct up to 2,000 MW of utility-scale solar generating capacity as part of an ambitious target to secure 20% of electricity from renewable sources.
- **Iraq's** Nov **oil exports** rose to a 10-year high average of 3.37 million barrels per day (bpd) (Oct: 2.7mn bpd), aided by the spare crude in storage facilities which was held back due to bad weather the month before.
- **Jordan** revealed that the volume of **financial assistance**, grants and soft loans committed to by donor partners touched USD 2.119bn between Jan 1 and Oct 31 this year.
- **Kuwait's** **LNG imports** are likely to rise by 17% yoy to 3mn tonnes by end of this year, according to an executive from the Kuwait Petroleum Corporation.

- **Kuwait** has requested the parliament to approve a **supplementary budget** of KWD 6.2bn to fund **weapons purchases** over 10 years, with the money be drawn from the country's general reserves, reported the *Al-Rai* newspaper.
- **Qatar's exports** were up 6.7% mom to QAR 22.6bn and imports up 14.1% mom to QAR 10.4bn in Oct; in yoy terms, exports were down 33.3%.
- The government of **Qatar** has **invited banks** to provide it with a USD 5.5bn 5-year loan, much smaller than the previously mentioned USD 10bn, reported Reuters.
- **Qatar's banking sector** registered a 11.3% yoy growth in **assets** in Q3 2015, higher than the GCC average of 7.9%. Banks' asset base in the UAE grew 7.5%, followed by Saudi Arabia (6.5%) and Kuwait (4.5%).
- **Foreign reserves** in **Saudi Arabia** have held steady at SAR 659.5bn as of end-Oct. About SAR 245.1bn had been withdrawn from the forex reserves during H1 this year, but with the issuance of government bonds, the need to tap into reserves has declined.
- **Remittances** from **Saudi Arabia** touched SAR 130.74bn during Jan-Oct this year, as compared to SAR 126.47bn transferred abroad during the same period last year.
- **Saudi Aramco** plans to spend USD 300bn on improving its supply chain in the next 10 years, disclosed the company's chief executive, also stating that by 2021, the company wants to double (to 70%) the amount of goods and services it sources from the local market.
- **Saudi Arabia** consumes three times more **electricity** compared to the international average. It currently produces more than 50 million megawatts of electricity daily, more than any neighboring country, including Egypt, which has a population of over 90 million but generates only 27 million megawatts daily.
- Greater **legal powers** are on the horizon for **Saudi women**, reported the *Al Riyadh* newspaper. As per the report, the Interior Ministry will issue family identity cards not

only to men, but also to divorcees and widows, granting them powers that will include accessing records, registering children for schools and authorising medical procedures. However, no date was mentioned for this move.

- **Saudi Arabia**'s Ministry of Labour disclosed that **recruitment visas** in the private sector totaled 1.6 million in 2014 while the private sector employed 347,275 Saudis. According to the Ministry, unemployment rate fell slightly to 11.6% in H1 this year.
- Total **sukuk issuance** in the first 9 months of 2015 fell sharply by 38.6% yoy to USD 48.8bn. According to Reuters, the sukuk market is forecast to grow by 15% in 2016, given a strong pipeline of USD 32bn, from issuers in different countries and sectors.

### **UAE Focus**

- **Non-oil direct trade** in the **UAE** recorded a 2% yoy growth to AED 534bn in H1 this year, with non-oil imports down 1% to AED 337.6bn while gold and vehicles topping the list of top exports (which were up 28%). Asia, Australia, and the Pacific region remained on top of the list of partners (42% of total trade) while Saudi Arabia accounted for 40% of the total non-oil trade with GCC.
- The **Dubai** government announced plans to establish a AED 100bn fund to provide low-cost loans for investors in Dubai's **clean energy sector**. The emirate aims to have solar panels installed on all building rooftops by 2030 and also plans to allocate AED 500mn of investment in research into areas such as integration of smart power grids and energy efficiency.
- **UAE**'s total **foreign aid** touched AED 60bn to 140 countries during the period 2010-2014, with the Minister of International Cooperation and Development revealing that the country is a major donor to the people of Yemen with a total of USD 320mn provided in aid.

## **Media Review**

### **Draghi's bazooka did not fire**

<http://www.wsj.com/articles/ecb-cuts-deposit-rate-draghi-to-announce-further-measures-1449147451>

### **OPEC squabbles**

<http://www.ft.com/cms/s/0/20474556-9a62-11e5-9228-87e603d47bdc.html>

### **Fitch sees Middle East/ Africa region vulnerable to downgrades in 2016**

[http://www.zawya.com/story/Fitch\\_sees\\_Middle\\_East\\_vulnerable\\_to\\_2016\\_downgrades-ZAWYA20151129034131/](http://www.zawya.com/story/Fitch_sees_Middle_East_vulnerable_to_2016_downgrades-ZAWYA20151129034131/)

### **Economic charts of the week: a study in contrasts**

<http://qz.com/566238/a-study-in-contrasts-the-10-most-important-economic-charts-of-the-week/>

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