

Weekly Economic Commentary – Dec 13, 2015

Markets

With the end of the calendar year stock markets in the US are entering in a frenzied mood especially in the wait for clues from the FOMC meeting. US stocks on Friday had their worst day since late Sep: the S&P 500 lost almost 4% and is back to the level of mid-October. The rout extended globally with the European markets with the exception of Japan which contained the loss thanks to a lower yen. Regional markets scored heavy losses due to the oil price plunge with Dubai's DFM recording the biggest one-week drop in 12 months, and the lowest price in two years. On FX markets the main news came from China where the central bank set the reference rate at the lowest level in 4 years. The euro was the main gainer amidst the market turmoil, while some key currencies in emerging markets took a blow, in particular the South African rand and the Mexican peso, underlying the further buildup of tensions. Oil prices suffered another setback: Brent touched USD 37.7/b its lowest level since Dec 2008, and is 12% below the level prior to the OPEC meeting on Dec 4. The oscillations which have characterized gold prices in last few months persisted also last week.

Global Developments

Global

- **Some 195 nations signed an historic decarbonisation agreement** to keep global temperatures “well below” 2.0C and “endeavour to limit” them even more, to 1.5C; To limit the amount of greenhouse gases emitted by human activity to the same levels that trees, soil and oceans can absorb naturally, beginning at some point between

2050 and 2100; To review each country's contribution to cutting emissions every five years so they scale up to the challenge; For rich countries to help poorer nations by providing "climate finance" up to USD 100bn to adapt to climate change and switch to renewable energy.

US/Americas:

- **US retail sales** increased by only 0.2% mom in Nov almost in line with Oct's 0.1% increase, indicating a soft patch in consumption.
- **University of Michigan consumer sentiment index** rose 0.5 points in Dec, reaching 91.8 from 91.3 the previous month.
- **US non-farm business productivity** increased 2.2% qoq ann in Q3. Output increased 1.8% while total hours worked fell -0.3%. Hourly compensation surged 4% and unit labor costs increased 1.8%.
- **US PPI** increased by 0.3% mom in Nov, reversing declines of 3 consecutive monthly declines. Major goods prices dropped, however, a solid gain from services driven the growth.
- **JOLTs data** released in Oct suggest labor market conditions remain unchanged. **Job openings** dropped to 5.4mn from 5.5mn in Sep, while **vacancy rate** declined to 3.6% from 3.7%. The **quit rate** remain unchanged at 1.9%.
- The **Fed's labor market conditions index** expanded by 0.5 points in Nov, indicating continually improving labor market conditions.
- **Wholesale inventories in the US** decreased -0.1% mom in Oct after a 0.2% rise in Sep.
- **US import prices** fell -0.4% mom in Nov, below consensus estimates. **Export prices** fell -0.6% mom as the drop in fuel prices continue to weigh in.
- The **Fed tech pulse index** increased by 9.5% yoy in Nov, reaching its highest point at 86.4 from 83.6 previously.
- **Claims for unemployment benefits** in the US were 282,000,

a sharp increase from the 13,000 in the previous week. It was the highest figure in more than twenty weeks.

- **Inflation in Brazil** reached double digits at 10.5% yoy in Nov, a top since November of 2003 when the inflation hit 11%. With recession in full swing and an impeachment request for President Rousseff the situation is increasingly tense.

Europe:

- The final **eurozone's real GDP** data recorded 0.3% qoq growth (1.6% yoy) in Q3, from 0.4% in Q2. Most economies expanded, with Germany and France growing 0.3% qoq, Italy 0.2% and Spain 0.8%.
- **Germany's CPI inflation** gained 0.1% mom (0.4% yoy) in Nov, vs 0.0% mom (0.3% yoy) in Oct.
- **Eurozone's inflation** was stuck at 0.1% yoy in Nov, following a similar increase in Oct.
- **German industrial production** rose 0.2% mom in Oct (0.2% yoy) following a -1.1% drop in Sep (0.2% yoy). Measured in annual rate IP grew for the 7th consecutive month. Slow but steady.
- **Germany current account surplus** was EUR 23bn in Oct, vs EUR 25bn in the previous month.
- **UK industrial production** index rose 0.1% mom (1.7% yoy) in Oct after falling -0.1% mom (1.5% yoy) in Sep.
- **Industrial production in France** ticked up 0.5% mom sa in Oct, following a flat reading in Sep.
- **Italy's industrial production** in Oct rose 0.5% mom after a 0.2% in Sep. In Q3, industrial production rose 0.4% qoq, driven by higher production of capital and durable goods, especially autos.
- **Turkish GDP** advanced 1.3% qoq (4.0% yoy) in Q3, from 1.4% (3.8% yoy) in Q2. Households and government consumption were the main drivers, while fixed investment contracted.

Asia and Pacific:

- **Japan's GDP growth** in Q3 was revised from -0.8% qoq ann fall to a rise of 1%, erasing the technical "recession" declared just three weeks ago. This surprising reversal was due to investments which from an initial estimated drop of -1.3% qoq turned out to have risen by 0.6%.
- **Japan's current account surplus** was JPY 1458.40bn in Oct, almost unchanged from Sep and well below the all-time high of JPY 3360.40bn recorded in Mar 2007.
- **The Leading Economic Index in Japan** rebounded to 102.9 in Oct from 101.6 in Sep, but way below the 106.7 high for 2015 recorded in Jun.
- **China's trade surplus** fell to USD 54.10bn in Nov from USD 616.4bn in Nov and USD 54.47bn a year earlier. The slump in imports ebbed, while exports declined more than expected by -6.8% yoy to USD 197.24bn, the 5th consecutive monthly decline.
- **China's inflation** rate was flat mom (1.5% yoy) in Nov, from -0.3% (1.3% yoy) in Oct, slightly above market consensus. Food prices increased by 2.3% yoy while non-food cost rose just 1.1% yoy. **PPI inflation** dropped -5.9% yoy in Nov, the same pace as in the previous three months.
- **Foreign direct investment in China** rose by 7.9% yoy to CNY 704.3 bn (USD 114 bn) in the first eleven months of 2015. FDI inflows in Nov rose only 1.9% yoy to CNY 64.9 bn (USD 10.4 bn).
- **Industrial production in China** rose 6.2% yoy in Nov, accelerating from a 5.6% in Oct much above market expectations. It is the fastest expansion since Jun, which involved all sectors. Manufacturing expanded by 7.2%.
- **Retail sales in China** increased by 11.2% yoy in Nov vs 11.0% in Oct, the highest figure since Dec 2014.
- **China will post record capital outflows** in 2015 exceeding USD 500 bn, according to the Institute of International Finance, a think tank of large international banks.

- **India's industrial production** soared 9.8% yoy in Oct from a 3.8% rise in Sep.
- **Taiwan's monthly trade surplus** fell sharply to USD 2.8 bn in Nov from USD 6.1 bn in October. Falling exports especially to mainland China provoked the decrease.

Bottom line: The data released last week were overall positive for the macro outlook. Japan's GDP revision was bewildering but dispelled for now worries over another recession. The figures from China point at a stabilization of economic activity and even Euroland displayed a rosier picture. With the US close to full employment, the Fed will raise interest rates for the first time in nine years on Dec 16, while elsewhere monetary policy will remain loose. Since WWII, US and European interest rates diverged on seven occasions. On three of those occasions, it caused deep financial and political disruption: the run up to the demise of Bretton Wood in the late '60s, the EMS collapse in 1992 and the Great Recession in 2008. This time a major sore spot are the high yield bonds in the US which took a blow when they posted their steepest decline since 2011, intensifying fears that a six-year bull market in stocks and other risky assets is nearing an end. To corroborate the worst fears Third Avenue a large junk bond fund has frozen redemptions citing illiquidity problems.

Regional Developments

- An agreement has been reached on key issues related to the **implementation of VAT** at the recent meeting of **GCC** representatives, revealed UAE's ministry of finance undersecretary. It was disclosed that sectors like healthcare, education, social services sector and about 94 food items would be exempt from VAT, and also that it would take 18 to 24 months to implement VAT after a final agreement has been reached.
- Fitch revised **Bahrain's Mumtalakat** Holding Company's outlook to negative from stable, following the downgrade

in Bahrain's outlook earlier this month, while affirming the long-term Issuer Default Rating (IDR) and senior unsecured **rating** at 'BBB-'.

- Non-oil business activity fell in **Egypt**, with the **PMI** slipping to 45 in Nov from Oct's 47.2 as output declined to a 26-month low of 42.7 (Oct: 45.5) and new orders, at 44.2, recorded the quickest rate of decline since Sep 2013.
- Urban consumer **inflation** in **Egypt** rose to 11.1% in Nov (Oct: 9.7%), the highest level since June this year, thanks to rising food costs.
- **Egypt's GDP growth** is expected to be less than 5% in the first fiscal quarter of 2015-2016, according to the planning minister, who also revealed that the government expects to reduce the **budget deficit** below 10% within the next two fiscal years. The country reported an upward revision in its GDP target for the current fiscal year to 5.5% from 5% previously and disclosed a 4.2% growth in the 2014/2015 fiscal year, up from 2.2% the previous year.
- **Egypt clean energy** commitment: it signed a USD 600mn deal with the European Investment Bank for a 1,800 MW high-efficiency combined cycle gas turbine power plant project; the USD 1.3 bn project is being co-funded by the African Development Bank (USD 80mn), the Arab Fund for Economic and Social Development (USD 200mn), and USD 240mn from the West Delta Electricity Company. Separately, the country signed a USD 2.3 mn deal with the International Finance Corporation, to finance studies on the feasibility of locally manufacturing clean energy technologies to be used in local industrial facilities in order to make them more energy efficient and less polluting.
- The Central Bank of **Egypt** received **loans** worth USD 600 million from the African Export-Import Bank and USD 200mn the Arab Monetary Fund in Nov, according to an unnamed official; this is expected to support the

foreign exchange reserves.

- **Jordan's** draft **2016 general budget** estimates public spending at JOD 8.496bn, and a projected deficit of 3.1% of GDP, with revenues estimated to grow by nearly 11% to JOD 6.775bn.
- **Kuwait's** minister of commerce and industry stated that the country was studying various **fiscal reform** measures including raising the corporate tax rate to 10% for local firms and also imposing limits on energy subsidies. Separately, a senior IMF official revealed that the authorities were showing a "willingness" to introduce reforms to boost their fiscal position.
- An official from the **Kuwait** Oil Company disclosed that the company plans to increase **production capacity** to 4mn barrels per day (bpd) by 2020 from around 3mn bpd now, also stating that "projects will not be interrupted because of the fall in oil prices".
- **Fitch** affirmed **Lebanon's** long-term foreign and local currency IDRs at "B" with a negative outlook, the latter due to "political risks exacerbated by the ongoing Syrian war, very weak public finances and anemic economic performance".
- **Qatar**-based **renminbi clearing centre** cleared around RMB 131bn (USD 20bn) within six months of its launch in June this year; the centre has emerged as the world's third largest ICBC-managed Chinese currency clearing facility by volume.
- **Qatar's** finance minister said that a more conservative estimate of **break-even oil price** will be used in the upcoming **budget**, compared to the previously-used \$65 a barrel.
- **Inflation** in **Qatar** was up 1.9% yoy in Nov, on higher costs of education, tobacco, transport and food amidst higher rents.
- **Qatar banks'** combined **credit** grew 16.45% yoy to QAR 722bn in Oct; credit to public sector jumped QAR 56bn in mom terms, while credit to the real estate sector grew

by 28.8% yoy to QAR 115.9bn.

- **Saudi Arabia PMI** increased to 56.3 in Nov, up from the record low of 55.7 registered in Oct, on the back of expansions in new orders, new export orders, and stocks of purchases. Output growth continued falling, with the sub-index hitting a five-month low of 62.9 from 63.2 last month.
- **Saudi Arabia is shipping more crude oil to Asia** over the last two months of the year, revealed trade sources, as attractive pricing and strong refining margins boosted demand. Reuters' data show that Saudi Arabia's major Asian customers received about 4.6mn bpd of crude in Jan-Nov this year (+12% yoy).
- **Saudi Arabia's population** is expected to cross 37mn by 2025, according to estimates of the Central Department of Statistics & Information. Official estimates reveal that the total population has crossed 30mn, with Saudis accounting for 20mn.
- **Saudi Arabia** is placed 8th globally in terms of the cost posed to the country by the need to fight violence and terrorism, estimated at SAR 619bn, according to a report by the American Institute for Economics and Peace. About 90% of the cost is associated with spending on armaments to protect the borders of the Kingdom.
- Bilateral **trade** between **Saudi Arabia and China** stands at USD 70bn, revealed the Chinese ambassador to Riyadh.
- **Unemployment among undergraduate Saudis** was at 49.3% in Saudi Arabia during H1 2015, according to a survey conducted by the Information and Statistics Department. Post-graduate degree holders, at 6%, showed the lowest percentage of unemployment.
- An **FT** report disclosed that the region's **sovereign wealth funds** had withdrawn about USD 19bn from asset managers in Q3 this year, citing data provider eVestment.

- **UAE PMI** rose to 54.5 in Nov, from Oct's 2.5-year low of 54, thanks to a sharper rise in output (58.1 in Nov, from 56.9 in Oct) alongside upticks in new orders and new export orders.
- **UAE** is on the "right track" to **reduce its reliance on oil**, stated the Minister of Economy; the oil sector is expected to account for just 20% of GDP by 2025.
- The **UAE** central bank will start engaging with banks towards full compliance with **Basel III** regulations, stated the governor, with an aim of full implementation by the end of 2018.
- **Inflation** in the **UAE** fell to 3.7% in Oct (Sep: 4.3%); housing and utility costs were up 8.3% yoy, while transportation prices were down 4.1% in mom terms due to the decline in domestic oil prices.
- At an economic forum held in UAE last week, it was disclosed by separate officials that the **UAE** is **forecast to grow** 3-3.5% this year and next, while **Dubai** and **Abu Dhabi** are expected to grow at 4% and 5.2% respectively.
- **Dubai** issued more than 12 million **entry visas to visitors** during the first eleven months of 2015, according to the director-general of the General Directorate of Residency and Foreigners Affairs.
- The **UAE** received the highest scores in the 2015 **Arab Knowledge Index**: 77.59% in the economy index, 77.48% in the information and communication technology index, 72.56% in the higher education index, 68.56% in the pre university education index, 60.79% in technical vocational educational and training index and 50.08% in the research and development index.
- **Passenger traffic** at the **Dubai airport** rose by 4.4% yoy in Oct, the lowest this year, to 6.25mn persons. Year-to-date, traffic increased 11.2% yoy to 64.95 million passengers.

Media Review

OPEC's divisions

<http://seekingalpha.com/article/3740716-opecs-divisions-keep-oil-low-and-volatile?ifp=0>

The globalization hiccup

<http://seekingalpha.com/article/3743406-globalization-pauses-will-it-resume>

Plans for VAT in the GCC

http://www.zawya.com/story/Gulf_states_agree_on_key_issues_for_implementing_VAT_UAE_official-TR20151207nL8N13W1TNX2/

The internationalization of the renminbi

<http://omfif.cmail19.com/t/ViewEmail/j/920E5EBC1F12FFFF/BA54D2BBEF5999D2E663AB054A538FBA>

The spotlight on private equities in 2015

<https://www.preqin.com/docs/newsletters/pe/Preqin-Private-Equity-Spotlight-December-2015.pdf>

Qatar loan launched into a crowded market

http://www.zawya.com/story/Qatar_loan_launched_into_crowded_marketIFR-TR20151206nL8N13V03GX2/

Sovereign wealth funds withdraw \$19bn from asset managers: FT

<http://www.ft.com/intl/cms/s/0/934f6f1c-9aab-11e5-be4f-0abd1978acaa.html#axzz3uAQBydBM>

Key points of the Paris climate agreement

<http://www.reuters.com/article/us-climatechange-summit-text-main-idUSKBN0TV0E920151212#HR9xDqUcMvZDhsj1.97>

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