

Weekly Economic Commentary – Jan 31, 2016

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Markets

Stock markets all over the world advanced in the wake of the BoJ's decision to set a negative interest rate on certain excess cash holdings and a rebound in oil prices (which have become a proxy for global growth prospects) at the end of the week. However, for the whole month all major indices recorded a loss and a bad January performance in the US has been followed by a full year loss nearly three out of four times since 1929. Regional markets benefitted from the improving sentiment especially after the oil price spike triggered by talks (later denied) between Saudi Arabia and Russia to cut output. The currency market saw the yen drop heavily while other crosses remained within tight ranges. Gold prices were pushed up by the perception that a new phase of monetary easing is nearing.

Global Developments

US/Americas:

- **US Q4 GDP** crawled up 0.7% qoq ann, sharply down from 2% recorded in Q3. Inventories and net trade, subtracted 0.45% and 0.47% from growth, respectively. Consumption added 1.5%, while residential investment contributed for 0.3%. Public spending was also slightly positive.
- The **US Fed FOMC meeting gave a cautious assessment** of the economic situation. The statement briefly mentioned volatile financial markets while underlining that inflation will likely remain low due to transitory factors, like energy prices. The statement did not point to a change in policy.

- **The Markit flash US Composite PMI** fell to 53.7 in Jan from 54 in Dec, the lowest since Dec 2014. Manufacturing activity picked up at 52.7 from 51.2 in Dec and services sector slowed to 53.7 from 54.3.
- The **Conference Board consumer sentiment** jumped to a three-month high in Jan, reaching 98.1 from 96.3 in Dec.
- **New durable goods orders in the US** shrank -5.1% in Dec, the largest decline since Aug 2014 and following a revised -0.5% drop in Nov. The tumble was driven by a 12.4% decline in transport orders.
- The **Case Shiller house prices index** in 20 major US cities rose 5.8% yoy in Nov, from 5.5% in Oct, the fastest pace since July 2014. Home prices are still below their record level reached in Jul 2006.
- The **Black Knight House Price Index** maintained its growth at 5.5% yoy in Nov, while increasing marginally by 0.1% mom.
- The US **Employment Cost Index** increased 0.6% qoq in Q4 on par with growth recorded in Q3.
- **Initial unemployment claims** dropped 16,000 to 278,000. As a result, the **4-week moving average** fell 2,250 to 283,000. After some weak readings these data indicate that the job market has not lost momentum.

Europe:

- The **Eurozone's M3 money supply** decelerated to 4.7% yoy in Dec from a revised 5% in Nov.
- **The Conference Board Leading Economic Index for the Eurozone** was 106.7 in Dec, up 0.2 points from Nov.
- **Eurozone annual inflation** accelerated to 0.4% yoy in Jan from 0.2%, in part due to the depreciation of the euro.
- **France's real GDP** 2015 grew 1.1% in 2015, vs 0.2% in 2014. In qoq terms growth was 0.2% in Q4 vs 0.3% in Q3.
- **Real GDP growth in the UK** in Q4 was 0.5% compared to 0.4% in Q3, taking the annual rate for 2015 to 2.2%, down from 2.9% in 2014.

- **Real GDP in Spain** expanded 3.5% yoy in Q4, up from a 3.4% in Q3, indicating that the country is making a strong comeback after the crisis. **The Spanish economy** created 525,000 new jobs last year, reducing the country's unemployment rate to 20.9%, still one of the highest in Europe but the lowest in Spain for almost half a decade.
- The **German Ifo** Business Climate Index declined to 107.3 in Jan from 108.6 in Dec, the lowest score since Feb 2015,
- **German retail sales** fell -0.2% mom in Dec after rising 0.4% in Nov.
- **The UK Nationwide Housing Price Index** rose 0.3% mom (4.4% yoy) in Jan, following an 0.8% mom (4.5% yoy) increase in Dec.
- **Russia's industrial output** declined -4.5% yoy in Dec, the steepest drop in the last 5 months.
- **Russia's retail sales** fell a staggering -15.3% yoy in Dec after declining -13.1% yoy in Nov.

Asia and Pacific:

- The **Bank of Japan** introduced negative interest rates for some bank deposits of -0.1% (from 0.1%) in their first benchmark rate move in 5 years; however it did not expand its quantitative and qualitative easing programme from the current JPY 80tn per year.
- **Inflation in Japan** was 0.2% yoy in Dec, down from 0.3% in Nov, as a result of lower prices of energy, transportation and housing.
- **Japan recorded a JPY 140.2 bn trade surplus** in Dec, compared to a JPY 666 bn deficit a year earlier. Exports shrank 8% yoy (the largest decline since Sep 2012) but imports slumped at an even faster pace of 18%.
- **Japan's Industrial production** contracted by 1% mom in Nov, following a 1.4% gain in Oct. While the data have been more volatile than usual of late, the worse than

expected results suggest that Japan's economy will finish 2015 on a subdued note.

- **Japanese retail sales** surprised on the downside and fell by -1.1% yoy in Nov, the same drop as in Oct.
- **Chinese industrial profits** fell -4.7% yoy in Dec after a -1.4% fall in Nov and a record low of -8.8% last Aug.
- **Taiwan's GDP rose 3.2%** qoq (but shrank -0.3% yoy) in Q4 after a -1.2% qoq drop (-0.6% yoy) in Q3. Export continues to be a weak point due to China's slowdown.
- **South Korean GDP** advanced 0.6% qoq, easing from a 1.3% in Q3. Household consumption and government expenditure were the main drivers of growth while construction investment plunged.
- **Korea's industrial production** deteriorated further in Nov, declining -0.3% yoy after a 1.5% gain in Oct.
- **Korea's inflation** increased to a 1.3% yoy in Dec compared with Nov's 1% increase.
- **Industrial production in Singapore**, a gauge of global demand, dropped -7.9% yoy in Dec, accelerating from the -6.4% decline in Nov.
- **Thailand's private consumption** rose 3.7% yoy in Nov, largely because of an uptick in nondurable consumption.
- **Thailand's industrial production** surprised on the upside and rose 0.1% yoy, though the rise is largely from low base effects.

Bottom line: Macroeconomic data released last week were decidedly on the negative side, from the paltry GDP growth in the US to the Eurozone money supply without mentioning the spate of data from Asia. A few bright spots, such as the Spanish recovery and healthy US real estate, are not enough to brighten the picture. The start of 2016 has seen an overall retreat from risky assets, such as equities, commodities and high yield corporate bonds fueled by fears of a global slowdown. The rout has been halted twice in so many weeks by central banks (first Draghi's speech and then the BoJ surprise move). But the tricks performed through monetary policy, which

is already ultra-loose, cannot constitute indefinitely a surrogate for more bold action to rekindle growth in the real economy.

Regional Developments

- **Bahrain** is working with the five banks that arranged its Nov USD 1.5bn bond issue for a **potential re-tap**, reported *Reuters*. This re-tap could happen within the next two to three months, according to one of the sources.
- **Bahrain's** central bank is committed to maintaining its **dollar peg**, revealed the head of regulatory policy. One-year USD-BHD forwards hit a high of 600 points last week, their highest level since at least the year 2000.
- **Egypt's** central bank raised the **cap on foreign currency deposits** at banks five-fold to USD 250k last week. This cap applies only for imports of essential foodstuffs, capital machinery, manufacturing components and medicines.
- **Egypt** signed a USD 200mn **grant** with **Saudi Arabia** to finance youth-led SME projects; grant is with a 5% interest rate.
- **New water tariffs** were announced in **Egypt**: prices were up EGP 0.07 to EGP 0.30 for consumption up to 10 cubic metres per day; for the highest slab of consumption exceeding 40 cubic metres per day, prices were raised to EGP 1.55, up from EGP 1.35.
- The **Egyptian Tourism** Authority said the sector has been losing around USD 255mn a month since the plane crash in Oct, and is now counting on Arab and domestic tourism to support the sector. Tourism receipts fell 10% yoy to USD 6.5bn in 2015.
- **Iraq's oil production** hit a record high of 4.13mn barrels per day in Dec, according to the ministry. The oil minister further disclosed that output from the country's southern region is expected to increase by up

to 400k bpd this year to over 4 million bpd.

- **Remittances of Jordanian** expatriates rose by 1.5% yoy to USD 3.798bn in 2015, according to central bank estimates.
- **Kuwait** estimates a KWD 12.2bn deficit in its **2016-17 draft budget**: expected revenues are estimated at KWD 7.4bn, while expenditures are set to drop by 1.6% to KWD 18.9bn. The finance minister revealed that the price of oil would be set at around \$25 in the budget.
- **Crude oil exports from Kuwait to China** hit a record high 1.75mn tonnes in Dec, up 1.4% yoy and equivalent to around 414k barrels per day.
- **Kuwait's** Assembly is set to **debate subsidy cuts** on Feb 9 – a study has recommended raising the prices of petrol, electricity and water as part of a comprehensive reform program.
- **Kuwait** awarded **contracts** worth KWD 9.7bn in 2015, a record-high and up 20% yoy, with over half of these projects related to the oil and gas sector.
- Only one in five persons in **Lebanon** are **optimistic about the economy** in 2016, as per a recent Gallup survey. That is up from 16% and 14% of participants who were optimistic about economic prospects for 2015 and 2014 in previous editions of the survey.
- **Expatriates in Oman** will be allowed to **start a business** without an Omani partner and no minimum capital requirement if a draft law prepared by the Ministry of Commerce and Industry (MoCI) obtains the government's approval.
- **Qatar** is in talks with banks for a **sovereign Sukuk issue** as early as Mar or Apr, reported *Reuters*. Qatar is expected to post a deficit of QAR 46.5bn this year, and has already borrowed USD 5.5bn through a bank loan concluded earlier this month.
- According to Swift, **Qatar's use of the RMB** accounted for 60% of all payments with China and Hong Kong, a substantial increase of 247% compared to 2014. In the

UAE, this number was 74% of payments by value, and 52% higher than the 2014 figure.

- **Foreign trade surplus** in **Qatar** was QAR 9.3bn in Dec, down 55.8% yoy and 14.8% mom. Exports were down 36.9% yoy to QAR 20.3bn while imports recorded a 1% dip to QAR 11bn. Japan, India and South Korea were the top export partners, accounting for 21.9%, 12.9% and 12.4% respectively.
- **Net foreign assets** at **SAMA** declined by 3.1% mom and 15.9% yoy to SAR 2.283 trillion in Dec. Data also showed an acceleration in its sales of foreign securities: its holdings dipped 5.5% mom to USD 401bn in Dec.
- The governor of Saudi Arabian General Investment Authority (**SAGIA**) stated at a global conference that many policies leading up to privatisation would be introduced in the coming years. He also said that the country aims to at least double annual inflows of FDI in the coming decade into sectors like mining, healthcare and IT.
- **Saudi Aramco**'s chairman said that **oil and gas investments** would be maintained in spite of the oil slump; the company has pumped more than 10mn barrels a day in each of the last 10 months.
- **Saudi Arabian** family conglomerate Ahmad Hamad Algozaibi and Brothers presented a revised restructuring plan to its creditors; the proposal becomes binding once 50% of them by value agree.
- The number of **Saudi citizens** working in the **private sector** increased by more than double to 1.7mn by the end of 2015 from around 700k at the end of 2011, according to the labour minister.
- The **Saudi** government disclosed that it had spent SAR 850mn on **Syrian refugees** over the past five years. This includes provision of food, education, accommodation and health services in Jordan, Turkey and Lebanon where the refugees are housed.
- Without improvements in tax efficiency, the

implementation of a 5% value added tax (**VAT**) in the **GCC** is likely to translate into a 10%+ hit on net income, according to EY.

- According to a recent **ILO** report, the incidence of **vulnerable employment** is expected to remain above 33% in 2016 in non-GCC countries, while the rate of working poverty (living on less than \$3.1 per day) is expected to be 36%.
- **S&P** signaled that oil-exporting countries could face further downgrades given the lower oil prices. Currently Azerbaijan, Bahrain, Kazakhstan, Oman, Russia, and Saudi Arabia are on negative outlook in its Europe, Middle East and Africa region, as well as Brazil and Venezuela in Latin America.
- The **Corruption Perceptions Index** has Qatar topping from the GCC, at 22, up 49 places from a ranking of 71 in 2015. UAE ranks 23, up from 70 last year, while Saudi Arabia and Bahrain maintained similar rankings at 48 and 50 respectively.
- UAE topped the Middle East region, ranking 23 out of 109 countries, in the latest **Global Talent Competitiveness Index**. Qatar followed at a close 24, while Saudi Arabia was ranked 42, Kuwait 51, Jordan 71, Lebanon 77, Egypt 88, Morocco 93 and Algeria 104.

UAE Focus

- The **price** of **petrol and diesel** in the **UAE** were down by 7% and 15% to AED 1.47 and 1.37 respectively for Feb.
- The profits of **UAE's** largest lender by assets, National Bank of Abu Dhabi, were hit by lower revenues and higher provisions (net profit of AED 5.23bn in 2015, down 6.2% yoy); the CEO of the bank later revealed that the bank expects "little [further] outflow of government deposits".
- The **UAE central bank survey** for Q4 showed a downtrend in **demand for credit**: the net balance measure for business

lending i.e. the weighted percentage of respondents reporting an increase in demand for loans minus those reporting a fall in demand, dropped to -8.1 in Q4 (Q3: +9.9).

- **Dubai** will aim to resolve **commercial disputes** within 10 days, reported WAM, and this is expected to mostly benefit traders making complaints from outside the UAE.
- **Tourism**: Over 14.2 million **overnight visitors** stayed in **Dubai** last year, up 7.5% yoy. India became Dubai's top tourism source market for the first time, reporting over 1.6 million tourists while Saudi Arabia followed with 1.54 million visitors; Chinese visitors were up 29% to 450k though travelers from Russia, CIS and Eastern Europe posted a 22.5% decline.
- **UAE's Etihad Rail** disclosed that it had suspended the tendering process for stage two of the project while the investment was being reviewed.

Media Review

The SWF taper: how big is it?

<https://insights.abnamro.nl/en/2016/01/global-daily-the-swf-taper-how-big-is-it/>

The return of the currency crash

<http://www.project-syndicate.org/commentary/currency-crash-renminbi-volatility-by-carmen-reinhart-2016-01>

Economic charts of the week

<http://qz.com/606328/the-10-most-important-economic-charts-of-the-week-10/>

Investment in the US oil industry

<http://qz.com/606119/investment-in-the-us-oil-industry-hasnt-been-this-weak-in-decades/>

The benchmark interest rate

<https://www.pimco.com/insights/viewpoints/viewpoints/finding-sea-level-for-interest-rates>

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