

# Weekly Economic Commentary – Feb 14, 2016

## Markets

Despite a rally on Friday, equity markets took another dive last week. Asia was particularly under pressure (with Hong Kong experiencing its worst start to a lunar New Year since 1994 and the Topix collapsing more than 12%), but all over the world indices sunk led by banking and mining companies' shares. Furthermore, investment grade bond prices and other safe-haven assets such as the yen and gold have outperformed strongly. Concerns over global growth, oil prices weakness and doubts over the health of key banking institutions especially in Europe contribute to such heightened risk aversion, which is unlikely to fade anytime soon. With the exception of Oman regional markets followed the global trend with Egypt and KSA particularly hit. In FX markets the yen surged despite super ultra-loose monetary policy, as Japanese investors repatriate their foreign holdings and the dollar sank as Yellen gave an unconvincing testimony to the US Congress. Oil had another rollercoaster week amid a drop in US oil inventories and rumors of talks between Saudi Arabia, Iran and Russia on a production cut. A main beneficiary of the turmoil has been gold which gained around 20% in a few weeks.

## Global Developments

### **US/Americas:**

- **Fed Chair Janet Yellen** in her semi-annual testimony to Congress expressed uncertainty on whether she has the legal authority to bring rates into negative territory. More generally she stuck to the script of a gradual rise in interest rates although she admitted that market turmoil could induce a rethinking.

- The **Federal Reserve Labor Market Conditions Index** expanded 0.4 points in Jan slightly better than Dec's 2.3 decrease, indicating improved labor market conditions.
- The **Federal Reserve Tech Pulse Index** expanded to 88.8 in Jan from 87.6 in Dec, recording a 12.2% yoy growth.
- **Wholesale stocks** in the US decreased -0.1% mom to USD 582 bn in Dec from to -0.4% drop in Nov. Inventories of durable goods declined -0.3% mom.
- **The US Federal Government** recorded a surplus of USD 55.2 bn in Jan, in comparison to a deficit of USD 17.5 bn a year earlier. The current fiscal year-to-date deficit stood at USD 160bn, against a deficit of USD 194 bn at same time in 2014.
- **US initial unemployment claims** fell 16,000 to 269,000, while the **4-week moving** average dropped by 3,500 to 281,250. The trend is weakening from in the second half of 2015.
- **US retail sales** increased 0.2% mom in Jan, offsetting the reduction in Dec. This indicates consumer spending is not as weak as anticipated at the beginning of the year.
- The preliminary **University of Michigan consumer sentiment index** marked the second monthly decrease in a row falling to 90.7, 1.3 points down from the Jan figure.

## Europe:

- The **Eurozone GDP** grew 1.5% yoy in 2015, and 0.3% qoq in Q4 the same as in Q3. The growth slowdown from 1.6% in 2014, underscores that a return to pre-2008 conditions remains elusive.
- **German GDP** rose 0.3% qoq (2.1% yoy) in Q4, from 0.3% (1.7%) in Q3. Germany confirms its role as the top performer among the large countries in the euro area. **Italian GDP** rose by 0.1% qoq (+1.0% yoy) in Q4, from

0.2% (0.8%) in Q3, while **Greek GDP** continued to fall by -1.9% yoy in Q4, the same rate as in Q3.

- **German CPI** fell in Jan by -0.8% mom (+0.5% yoy), from -0.1% (0.3% yoy) in Dec. Germany's **Wholesale Price Index** fell by -0.4% mom in Jan, from -0.8% in Dec.
- **The Swedish Riksbank** slashed unexpectedly its main repo rate to -0.5% from -0.35%.
- **Eurozone industrial production** fell by -1.0% mom in Dec, from -0.7% in Nov. Among individual countries, **German IP** fell -1.2% mom after -0.1% in Nov; Italian IP fell -0.7% mom, from -0.5% in Nov; **French IP** fell -1.6% mom in Dec from -0.9% in Nov.
- **UK industrial production** fell -1.1%, its sharpest monthly drop in three years, compared with a -0.8% fall in November. Manufacturing output fell -0.2% for the third month in a row.

### **Asia and Pacific:**

- **Foreign exchange reserves in China** declined USD 99.5 bn to USD 3.23 tn in Jan, slightly lower than the monthly fall of USD 107.9 bn in Dec, the largest ever recorded.
- **Japan's current account surplus** was JPY 960.7 bn in Dec, after JPY 1143.5 bn in Nov. It was the 18th straight month of surplus, supported by a JPY 1012.2 bn income from investment abroad and a JPY 188.7 bn trade surplus. In 2015, Japan's current account surplus was JPY 16.64 tn, up six fold from 2014 as a result of the oil price drop and the yen's depreciation.
- The final estimate of **Japan's GDP** showed the economy escaped recession in Q3, expanding 0.3% qoq (1% yoy), up from the initial estimate of -0.2% qoq. The improvement was mainly driven by capital investment, while household consumption was a touch softer.
- **Japan Industry Activity Indexes** fell more than expected, by -0.8% mom in Nov, following Oct's 0.7% gain.
- **India's GDP** grew at 7.3% yoy in Q4 as expected. Monsoon

rains were not abundant over the past 2 years so agriculture was a drag on growth. On the bright side, manufacturing is expanding at double-digit rates which is a harbinger of more solid long-term growth.

- **India's CPI** edged up to 5.7% yoy in Jan from 5.6% yoy in Dec driven mostly by higher food price, which rose sharply by an 11-month high of 6.8% yoy in Jan from 6.4% in Dec.
- **India's industrial production** fell -1.3% yoy in Dec, after a revised -3.4% fall in Nov. The series is volatile towards the year's end, hence it would be futile to extrapolate a trend.
- **Malaysia's industrial production** went up 2.7% yoy in Dec, from Nov's 1.9%, though sustained improvement is unlikely until domestic and external conditions improve.

**Bottom line: Many investors expected an acceleration of global growth in 2016 pushed by higher disposable income in the US & Europe thanks to cheap energy. Reality has sapped such expectation because the oil price drop, far from being a catalyst of growth, has turned out to be another negative factor of instability and corporate gloom. Actually if one were to believe the signals from major government bond markets, the global economy is sliding towards recession. In Europe and Japan, government bonds worth nearly USD 6 trn now have negative yields. To corroborate such gloom the OECD composite leading indicator was 99.7 in Dec, a tad lower than in Nov. and the lowest reading since the beginning of 2013. The indicator declined for the G7 group of advanced economies, while among large emerging markets only China registered a minor uptick, while India, Brazil and Russia declined.**

### Regional Developments

- **Bahrain** has the region's lowest operating **costs** for **financial services institutions**, revealed a KPMG study. Bahrain offers higher value manpower costs, at an average of 6% and 15% less than Dubai and Qatar

respectively while the overall cost of doing business was lower than in Dubai and Qatar by 37% and 46% respectively.

- **Egypt's** PM expects the **VAT bill** to be tabled in the Parliament by end of this month.
- **Egypt's** central bank revealed that it had **injected over USD 14bn into local banks** over the past three months and this has resulted in an "immediate impact on foreign trade and industrial activity". The central bank had raised interest rates by 50bps in Dec.
- **Urban consumer inflation** in **Egypt** fell to 10.1% in Jan (Dec: 11.1%) while core inflation was 7.73% in Jan versus 7.23% in Dec.
- **European investments** in the **Egyptian** markets grew by 4% in 2015 while the value of bilateral trade between EU and Egypt was up 11% since beginning of 2015, according to the Head of European Union Delegation to Egypt.
- The European Bank for Reconstruction and Development (**EBRD**) invested EUR 1.7bn in **Egypt** via 32 projects since 2012.
- **Egypt's** central bank received USD 900mn from the **China Development Bank** as per a USD 1bn financing agreement signed last month. This will raise foreign reserves to around USD 17.4bn, as per the central bank governor.
- If the budget numbers are any clue, **Egypt** looks set to **devalue its currency**: Reuters reported that Egypt is drafting its 2016-2017 budget on the basis of an exchange rate of EGP 8.25 to the dollar compared to EGP 7.75 this fiscal year.
- **Jordan** disclosed that it had received USD 1.7bn in grants and grant equivalents at the London donor conference for Syrian refugees.
- **Unemployment rate** in **Jordan** was 13.6% in Q4, with jobless rate among men at 11.7%, while it reached 23% among women.
- **Kuwait's** National Assembly discussed **plans to reduce subsidies**: the government wants to raise petrol prices

to 85 fils a litre for low-grade 90 octane fuel, and 105 fils a litre for 95 octane petrol.

- **Lebanon's import bill** fell by more than 11% yoy in 2015, on a stronger dollar and lower oil prices and commodity costs.
- **Oman lost USD 14bn** in revenues in 2015 compared to 2014 due to low oil prices, official statistics show.
- The Executive President of the Central Bank of Oman announced that **Oman plans to borrow** between USD 5-10bn on international markets to finance the budget deficit.
- **Qatar's** central bank governor stated that **banking systemic liquidity** had been "comfortable", in spite of lower oil prices and subsequent government deposits, partly reflecting QCB's active liquidity management operations. The three-month Qatar interbank offered rate is at 1.37%, up from around 1.07% a year ago.
- **Loan-to-deposit** ratio in **Qatar** rose to 116.8% as of end-Nov 2015, up from 103.4% a year earlier. Lending was up 19.4% yoy as of Nov, largely on a 23.6% rise in loans to the private sector. Money supply (M2) continued to grow, rising 3.1% yoy to QAR518bn.
- **Qatar's** investments as a share of its GDP rose to 39.6% in Q2 2015 from 32.4% in 2014 on stable government capital spending, reported QNB. Private consumption meanwhile rose to 20.8% of GDP in Q2 2015 from 14.8% of GDP in 2014.
- The average **water consumption per capita** in **Saudi Arabia** is 300 liters per day, with the agricultural sector consuming about 85% of the total.
- **Non-oil exports** in **Saudi Arabia** rose 12.5% yoy to SAR 15bn in Nov; imports were down 14.4% to SAR 47.2bn. Top exports partners were UAE, China and Singapore each respectively accounting for 14.3%, 9.4% and 4.9%.
- **Saudi Arabia** reported the arrival of 7.4mn **visitors** into the country during H1 2015, a 25% yoy increase.
- **Saudi Arabia** will need investment of SAR 500bn in **electricity projects** over the next ten years to cope

with rising demand, according to the electricity and water minister. Peak electricity is expected to touch 90,000 megawatts (MW) in 2022 versus installed capacity of around 70,000 MW now.

### **UAE Focus**

- The **Federal debt law** is likely to be ratified within 6-9 months, according to a senior UAE Finance Ministry official, which will enable sovereign debt issuances. He also revealed that the central bank would be responsible for issuing the dirham-denominated bonds, which are expected to be around AED 80-100bn.
- The **Dubai Economy Tracker** Index declined to 50.7 in Jan (Dec: 51.8), signaling the slowest expansion in non-oil private sector activity in nearly six years. Both output and new orders were weak, while input costs fell for the first time since June 2010.
- **UAE's Mubadala** is talking to banks to raise a loan worth up to USD 2bn, reported Reuters. The funding would be used to roll over a three-year revolving credit facility, which had been in place since 2007, according to sources.
- **Bilateral trade** between **UAE and India** is projected to grow by 60% by 2020 to touch nearly USD 100bn making it one of the UAE's top trade partners.
- **DP World** disclosed that its annual gross container volumes rose 2.4% yoy to 61.7mn twenty-foot equivalent units in 2015 on a like-for-like basis and was up 3% on a reported basis.

### **Media Review**

**A great interactive graph to see which oil producers survive at each price level**

[http://www.economist.com/blogs/graphicdetail/2016/01/daily-chart-6?fsrc=scn%2Ftw\\_ec%2Fadjusting\\_the\\_taps\\_on\\_oil\\_price](http://www.economist.com/blogs/graphicdetail/2016/01/daily-chart-6?fsrc=scn%2Ftw_ec%2Fadjusting_the_taps_on_oil_price)

**The CEO of BlackRock Larry Fink writes to the CEOs of American corporations**

<http://www.businessinsider.com/blackrock-ceo-larry-fink-letter-to-sp-500-ceos-2016-2>

### **The end of the petrodollar age**

<https://next.ft.com/content/c5d38000-cf2a-11e5-831d-09f7778e7377>

### **Saudi Arabia, subsidy cuts & sentiment**

<http://www.ft.com/intl/cms/s/0/3e6c1f72-c9b3-11e5-be0b-b7ece4e953a0.html#axzz3zrcJP2VK>

### **Payment delays reported in Saudi Arabia**

[http://www.zawya.com/story/Saudi\\_Arabian\\_builders\\_delay\\_paymen ts-TR20160209nL8N15N2LUX2/](http://www.zawya.com/story/Saudi_Arabian_builders_delay_paymen ts-TR20160209nL8N15N2LUX2/)

### **Sovereign funds' selling could hit \$700 bln of European stocks**

[http://www.zawya.com/story/Sovereign\\_funds\\_selling\\_could\\_hit\\_U SD700bn\\_of\\_European\\_stocks-TR20160210nL8N1503WXX2/](http://www.zawya.com/story/Sovereign_funds_selling_could_hit_U SD700bn_of_European_stocks-TR20160210nL8N1503WXX2/)

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