

Weekly Economic Commentary – Feb 21, 2016

Markets

Global stock markets last week rebounded in developed and emerging markets as risk aversion subsided and investors ventured into some bottom fishing. Regional markets advanced together with oil prices supported by an agreement between KSA and Russia to maintain crude output at January levels. In the currency market the euro fell sharply as additional ECB easing measures were ventilated in a speech by Draghi. The gold price retrenched as the shockwaves in financial markets waned, for now.

Global Developments

Americas

- Tighter financial market conditions were the key topic at the **Jan Federal Open Market Committee meeting**: they uncertainty about near-term prospects and the looming downside risk induced FOMC members to wait and see how their rate hike will affect the economy
- **US headline CPI** was unchanged mom (+1.4% yoy) in Jan (vs -0.1% mom and 0.7% yoy in Dec) as energy prices recorded the second consecutive drop and food prices remained constant. The core CPI, which excludes food and energy, rose 0.3% mom (2.2% yoy).
- **US industrial production** expanded 0.9% mom in Jan, reversing a decline of -0.7% in Dec. Manufacturing and auto outputs were the major gainers while mining output declined. Capacity utilization increased to 77.1% in Jan from 76.4% in Dec.
- **US PPI** grew 0.1% mom in Jan after a decline of 0.2% in Dec. This is only the second increase in the past 6

months.

- **Housing starts in the US** decreased by -3.8% to a three-month low seasonally adjusted annual rate of 1.099mn in Jan, compared to 1.143mn in Dec.
- **Initial unemployment claims** fell 7,000 to 262,000, the 2nd consecutive weekly decline. The 4-week moving average dropped to 273,250 from 281,250 previously.
- **The Conference Board leading indicators index** fell by -0.2% in Jan, after declining by -0.3% in Dec, due to financial markets' volatility.

Europe

- **ECB President Mario Draghi** reiterated that the ECB would "not hesitate to act" to maintain price stability, raising investor expectations of further easing measures at the next meeting on Mar 10.
- **The euro zone's external trade** surplus widened in Dec to EUR 24.3bn, not seasonally adjusted, from EUR 23.6bn in Dec 2014. **The euro zone's current account** surplus expanded to EUR 41.4bn in Dec, from EUR 40.1bn in Dec 2014.
- **UK inflation** rose 0.3% yoy in Jan after climbing 0.2% in Dec.
- **UK unemployment rate** for Q4 2015 held steady at 5.1%, remaining at its lowest since mid-2008.
- **UK retail sales** rose 5.2% yoy in Jan, up from a 2.3% yoy increase in Dec, confirming that the economy remains resilient.
- The **ZEW Indicator of Economic Sentiment for Germany** fell sharply to 1 point in Feb from 10.2 in Jan, the lowest level since Oct 2014.
- **German factory orders** fell 0.7% mom in Dec, following two months of solid gains.
- **Consumer confidence in the euro area** declined to -8.8 in Feb from -6.3 in Jan, the lowest since Dec 2014. The **Zew Economic Sentiment Index** for the euro area decreased to

13.6 in Feb from 22.7 in Jan.

- **Russia's industrial output** fell -2.7% yoy in Jan compared to the Dec deceleration of - 4.5% yoy.
- **Russia's retail sales** decelerated to 7.3% yoy in Jan from 15.3% yoy in Dec.

Asia Pacific

- **Japan's GDP** fell -0.4% qoq in Q4, vs a 0.3% rise in Q3. The drag on growth was consumption, while dropping exports confirm that headwinds from abroad are blowing harder.
- **Japan's industry activity index** fell -0.6% mom in Dec, an improvement on Nov's -0.9% contraction driven by declining financials, real estate, and business-related services. **Japan machinery orders** increased 4.2% mom in Dec, but overall momentum remains weak.
- **Japan's trade surplus** jumped to JPY 119.4 bn in Jan, from Dec's JPY 15.31 bn.
- **China's M2 money supply** grew 14% yoy in Jan, up from a 13.3% gain in Dec.
- **China's inflation was** 1.8% yoy in Jan, up slightly from Dec's 1.6%, driven mainly by food prices. **China's PPI** fell -5.3% in Jan, a slight improvement from Dec's -5.9%.
- **China's trade surplus** stood at USD 63.3 bn in Jan, widening from USD 60.0 bn reported a year earlier. It is the largest trade surplus on record, but resulted from worse than expected exports and imports drops. Exports collapsed by 11.2% yoy while imports tumbled 18.8% yoy. **FDI into China** rose to USD 14.1 bn in Jan, from USD 12.2 bn in Dec.
- **India wholesale price index** surprised on the downside in Jan, declining -0.9% yoy, compared with a -0.7% drop in Dec.
- **India's trade deficit** narrowed to USD 7.7 bn in Jan, up from Dec's USD 11.7 bn.

- **Taiwan's GDP** fell -0.5% yoy in Q4 but expanded 0.5% qoq. Exports fell steadily, while consumption ticked up.
- **Taiwan's trade surplus narrowed** to USD 3.5 bn in Jan from USD 4.2 bn in Dec, as the decrease in exports outweighed weaker imports.
- **Malaysia's growth** slowed in Q4 with GDP rising 4.5% yoy, after gaining 4.7% in Q3.
- **Thailand's GDP** rose 0.8% qoq (2.8% yoy) in Q4, compared to 1% qoq and 2.9% yoy in Q3. Agriculture contracted over the quarter, while a rebound in investment and a faster increase in government spending were unable to offset a decline in private consumption and exports.

Bottom Line

Few surprises characterized the data flow (with the exception of the rebound in the US industrial production) and the global picture remains muted at best. Data from Asia are particularly downbeat with growth in Japan again sliding despite a humongous fiscal and monetary stimulus.

Regional Developments

- **S&P downgraded credit ratings** of some major oil producers including **Saudi Arabia, Bahrain and Oman** last week. While Bahrain was stripped of its investment grade status, being downgraded to 'BB/B', Saudi ratings were down two notches to A- stable.
- Following the ratings downgrade, **Bahrain's government cancelled a USD 750mn bond sale**. The central bank announced that it had decided not to proceed with the sale and that "any future transaction [would] be subject to market conditions".
- **Egypt is not making a move to devalue or float its currency**, reported the state news agency, citing a senior central bank official. Furthermore, the central bank raised the cap on foreign currency deposits at banks to USD 1mn a month for exporting companies.

- **Egypt**'s central bank disclosed that investments of insurance firms in treasury bills increased by 4.1% yoy to EGP 21.141bn at end-Nov.
- **Egypt** is set to **remove subsidy on services of electricity sector** totally by 2019, according to a statement from the Chairman of the New and Renewable Energy Authority.
- **Oman's nominal GDP** at market prices fell by -14.2% in the first nine months of 2015, compared to the same period of previous year, mainly on account of plunging crude oil prices in the global markets.
- **Tourist presence** in Oman rose at an annual average of 7.4% between 2005 and 2014.
- **Oman's health-care market** is projected to be worth USD 4.3bn by 2020, boosted by a five-year annual average growth rate of 12.9%, according to Alpen Capital, which estimates Oman's health-care market size at USD 2.3bn in 2015.
- **Qatar's tourism receipts** are set to reach USD 7.2bn by 2025, with the National tourism Sector strategy aiming for close to 4mn visitors by 2020 and about USD 40-45bn in investments.
- **Saudi Arabia** plans to **issue floating rate bonds** later this month, to encourage local banks to buy the debt. Pricing for the issue is expected today, with the settlement to be completed by Tues.
- In an attempt to ease liquidity concerns, **Saudi Arabia's** central bank **raised the ratio of deposits which commercial banks can lend out** to 90% from 85% previously, reported Reuters.
- **Saudi Arabia suspended a USD 3bn aid package for the Lebanese army** last week – the aid was pledged in 2013.
- **Bilateral trade between the GCC and CIS countries** touched USD 8bn in 2014, according to the Dubai Chamber estimates.

- **Inflation** in **Dubai** fell -0.3% mom and posted +1.9% yoy in Jan, as transport costs dipped on lower fuel prices. Housing and utility costs were up 4.4% yoy.
- **Money exchange houses** in the **UAE** are set to see **new capital requirements** by Q2: companies are required to hold at least AED 5mn if they offer remittance services, up from the previous level of AED 2mn; further, firms handling wage payments must have at least AED 10mn as capital.

Media Review

Oil prices are complicated

http://econlog.econlib.org/archives/2016/02/oil_prices_are.html#.VslcDr6Tnvc.twitter

Mediocre public fund investment in the US

<http://www.ai-cio.com/channel/NEWSMAKERS/America-Land-of-the-Free,-Home-of-Mediocre-Public-Fund-Investing/>

An overview on S&P 500 earnings in Q4

http://www.factset.com/websitefiles/PDFs/earningsinsight/earningsinsight_2.19.16

Is Trump inevitable?

<http://www.politico.eu/pro/is-donald-trump-now-inevitable-south-carolina-primary-ted-cruz-marco-rubio-jeb-bush-republican-winner-us-presidential-election-2016-news/>

A risk based recession in the US?

<http://www.politico.eu/pro/is-donald-trump-now-inevitable-south-carolina-primary-ted-cruz-marco-rubio-jeb-bush-republican-winner-us-presidential-election-2016-news/>

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