

Weekly Economic Commentary – Feb 28, 2016

Markets

Stock markets in developed countries had the second positive week in a row, while emerging markets were more subdued. Regional markets were generally upbeat in line with the rebound in oil prices. In currency markets the USD prevailed in major crosses, while the GBP fell to a seven year low due to worries on the Brexit. Gold was on the back foot as risk aversion subsided.

Global Developments

Americas

- **The second estimate of US GDP** shows that growth halved between Q4 and Q3, as real GDP expanded by 1% qoq ann vs 2% in Q3. The major revision regarded inventories and imports, while fixed investment (which was extremely weak), public spending and exports were revised down modestly
- **US New Home Sales** plunged unexpectedly by -9.2% mom (5.2% yoy) in Jan. Falling sales and significant pipeline of home under construction are expected to continue dragging on new home market.
- **US Existing Home Sales** recorded a paltry growth of 0.4% mom in Jan (11% yoy).
- **University of Michigan Consumer Sentiment Survey** remained almost flat in Feb, dropping only 0.3 points from Jan.
- **US Durable goods orders** rose 4.9% in January, following a steep decline in December. The rise in the headline was in line with what we anticipated, but more than the consensus of 2.9%. The important details on core capital

goods were positive overall, with orders up 3.9% and shipments down just 0.4%. Durable inventories decreased 0.1%.

- **US nominal personal income** increased 0.5% mom in Jan, accelerating from the 0.3% gain in each of the prior two months. Nominal disposable income also advanced 0.5%, up from 0.3% in Dec. Wages and salaries rose by USD 48.1 bn, up from an increase of USD 18.3 bn in Dec.
- **The personal consumption expenditure deflator in the US** rose 0.1% mom in Jan, reversing Dec's -0.1% decline. Energy prices fell -2.9% mom following a -3% drop in Dec.
- **US real spending** grew 0.4% mom in Jan, due to surging utility bills, vs 0.2% in Dec.
- **Initial Unemployment Claims** rose by 10,000 the previous week remaining low at 272,000. The **4-week moving average** declined from 273,250 to 272,000 confirming the resilience of the labor market.
- **Markit's PMI services** for the US was in contractionary territory at 49.8 in Feb, from 53.2 in Jan, the nadir since the government shutdown in Oct 2013.
- **Standard & Poor's downgraded Brazil's sovereign rating** deeper into junk status to 'BB' from 'BB+', highlighting that the country risks a further worsening in creditworthiness and that "the challenges Brazil faces remain considerable".
- North Dakota **oil producer Whiting Petroleum Corp** announced the suspension of all fracking operations reducing expenditures by 80%, the biggest cutback to date by a major US shale company.

Europe

- **Eurozone's annual inflation** accelerated to 0.3% in Jan from 0.2% in Dec.
- **The Conference Board Leading Economic Index for the Eurozone** was 106.8 in Jan, up 0.1 of a point from Dec.

The **Eurozone's economic sentiment indicator** slid to 103.8 in Feb from 105.1 in Jan.

- **German GDP** advanced 0.3% qoq in Q4 2015, following a 0.3% qoq increase in Q3 2015.
- **The German Ifo business climate index** slipped to 105.7 in Feb from 107.3 in Jan, pushed down by a drop in demand for German goods in the emerging markets.
- **Spain's GDP** grew 0.8 qoq (3.5% yoy) in Q4 2015, the same as in Q3 (3.4% yoy). Private consumption and investments were the drivers, (3.5% yoy and 6.4% yoy, respectively) while net exports worsened.
- **The U.K. consumer confidence index** in Feb fell to 0 losing 4 points from Jan. Sentiment is sapped by worries about the referendum on the EU and financial markets' turmoil, with the pound tumbling to a seven-year low last week.
- **German new homes prices** rose 2.7% yoy in Jan, following a revised 3% yoy gain in Dec. The prices of existing homes and apartments also increased in annual terms, with growth rates accelerating.

Asia Pacific

- **The Bank of Japan's** 2% inflation target, remains as distant as ever: **core CPI** was flat (0%) in Jan down from 0.1% growth in Dec. Negative interest rates are ineffective in the absence of structural reforms.
- **Prices for residential buildings in China's top cities** soared. Among the noteworthy cases 52% yoy in Shenzhen 18% yoy in Shanghai, 10% in Beijing.
- **Singapore's GDP** recorded a higher-than-expected growth of 1.8% yoy in Q4 in line with a growth of 1.9% in Q3.
- **Singapore's notoriously volatile industrial production** fell -0.5% yoy in Jan from -7.9% in Dec.
- **Hong Kong's GDP** grew by only 0.2% qoq in Q4, down from 0.6% in Q3. Volatile financial markets and slower Chinese growth continue to hinder trade and consumption.

- **The Bank of Korea's Consumer Confidence Index** dropped to 98 in Feb, from a neutral level of 100 in Jan. Sentiment over economic conditions declined due to financial markets volatility and weak global conditions.
- **Taiwan Industrial Production** dropped -5.7% yoy in Jan, following a -5.8% decline in Dec as a result of declining demand from China which saps Taiwanese output.

Bottom Line

The spate of macro data last week did not substantially modify the global picture, confirming that Q1 2016 has started on a downbeat note. The Group of 20 largest economies yesterday failed to reach an agreement on joint stimulus measures, laying bare the divisions which prevent a decisive policy coordination. The knots are eminently political. In particular the cause of China's and Euroland's current predicaments stem from an obsolete governance structure and ineffective decision making, while the US, which enjoys a more dynamic economy, fails to reform its massive entitlement programs and for the whole of 2016 will be enmeshed in a virulent Presidential campaign.

Regional Developments

- **Iranian President Hassan Rouhani** won a strong vote of confidence, as reformists obtained considerable gains in the parliamentary elections that could mark a turnaround in Iran politics.
- **Saudi Arabia's** oil minister said a lack of trust between the world's largest oil producers prevents a cut in production. He said the Kingdom would instead **advocate a co-ordinated production freeze** to reduce the glut of crude.
- **Bahrain's** central bank governor has joined his other counterparts in echoing the view that the **dollar peg** is likely to continue. The one-year dollar/dinar forwards had touched a high of 650 points in late Jan, their

highest level since at least 2000, as per Reuters data.

- The **cost of Egypt's subsidy on oil** decreased by 42.2% or EGP 19bn to EGP 26bn in H1 of the current fiscal year, as per an official in the petroleum ministry.
- **Egypt** plans to tap international bond markets with a **debt issuance** by Jun this year, disclosed the finance minister. He also said that the country would face a "financing gap" over the next three years of between USD 25-30bn.
- **Egypt's** central bank governor **ruled out a devaluation of the pound** while reserves were at the current USD 16.48bn mark, stating that "when foreign reserves reach USD 25-20bn, then maybe we can think about it".
- **Trade deficit** in **Jordan** narrowed by 14% yoy last year; exports were down 6.6% to JOD 5.558bn while imports dipped 11.3% to JOD 14.43bn.
- **Credit growth** in **Kuwait** reported an increase of 8% yoy in 2015, following a strong gain of KWD 632mn in Dec alone. Growth in business credit, at 6.7% yoy in Dec, was the strongest pace since Sep 2014.
- **Discussions** continue in **Kuwait** regarding the gradual **removal of fuel subsidies**: the government proposed to raise the prices of petrol by between 42-83%.
- **Kuwait's crude oil exports to China** grew by 18% yoy in Jan to 1.09 million tons, equivalent to about 258k barrels per day.
- About 300k **Lebanese expats** based in the GCC **remit** around USD 5bn annually to roughly 600k recipients, revealed the chairman of the Lebanese Council for Work and Investments in the Gulf.
- In a positive note the Financial Action Task Force (**FATF**) announced that **Lebanon** has fully complied with all requirements to combat money-laundering and terrorism financing, hence removing the country from under surveillance.
- **Bilateral trade** between **UAE and Qatar** touched QAR 26.1bn last year, with the former Qatar's fifth biggest trading

partner. Qatar's minister of economy and commerce also stated that some 1,074 UAE companies were operational in Qatar while nearly 4,200 Qatari businesses operate in the UAE.

- Total **credit growth** in **Qatar** was up 3.6% mom in Jan, supported by the public sector, while public sector deposits contracted by 6.7%. Loan to deposit ratio improved to 119 from 116 the previous month.
- **Mobile subscribers** in **Saudi Arabia** remained unchanged at 53mn in 2015, with 84% of them pre-paid subscribers, according to a report released by the Communications and Information Technology Commission.
- The **GCC** have agreed on the introduction of a **5% VAT from 2018**, according to a senior Omani official, though the decision is yet to receive final approval before being implemented.
- The **IMF** is confident that the GCC nations have the **capacity to adjust to the current fiscal scenario** amidst falling prices and twin (current and fiscal account) deficits, revealed its managing director. She also stated that the implementation of a single-digit VAT was necessary to support revenue generation, of almost 2% of GDP.
- According to **Moody's**, **GCC's savings from increased fuel prices will be minimal** at an average of 0.5% of GDP across GCC in 2016. This move alone would be insufficient to address the drop in revenues from lower oil prices.
- **Private deposits** with commercial banks in Oman rose 6.13% to OMR 11.87 bn at end December 2015.
- UAE's infrastructure minister disclosed that 2018 was an unrealistic date for the launch of the **trans-national railway across the GCC**. The Gulf ministers are likely to re-visit the date for implementation when they meet in Riyadh next month.

- A total of 2,051,802 people underwent medical fitness tests for **residence visa** issuance in **Dubai** last year, of which around 40% were for new visas, according to the Dubai Health Authority.
- **Inflation** in **Abu Dhabi** rose 3.2% yoy in Jan this year, with the 'housing, water, electricity, gas, and other fuels' group accounting for the largest share of price increase – 81.8% of total – and rising by 8.2% yoy.
- Certificates of deposit holdings of **banks in the UAE** with the central bank exceed about AED 120bn, according to a senior central bank official, hence making **liquidity** “comfortable” across the banks.
- UAE's **Sharjah** emirate announced a **budget** of AED 20.3bn for this year versus AED 17.7bn the year before. Around 46% of the budget is allocated to economic development; the budget also allocates for the creation of 2500 new jobs across various government agencies this year.

Media Review

Saudi Arabia rules out oil production cuts

<https://next.ft.com/content/f8896d4e-da3c-11e5-98fd-06d75973fe09>

Ratings agency risk & Saudi Arabia

https://www.zawya.com/story/Rating_agency_risk_mounts_for_Saudi_as_views_diverge-TR20160225nL8N164348X2/

Saudi Arabia still world's swing oil producer

https://www.zawya.com/story/SArabia_not_US_shale_worlds_swing_oil_producer-TR20160223nL2N1620W4X2/

Worldwide salaries in 2016 record the largest rise in 3 years

http://info.haygroupupdate.com/rs/494-VUC-482/images/HG_Salary_Forecast_2015_dev_aw.pdf

Elections in Iran

<http://www.reuters.com/article/us-iran-election-vote-idUSKCN0VZ0E7>

Powered by:

