NASSER SAIDI
& ASSOCIATES

Wishing All Our Readers A Very Happy New Year!

Weekly Economic Commentary, 4 Jan 2015

Markets

A tumultuous **year in review**: S&P 500 touched unprecedented highs, European shares advanced for a third consecutive year and while emerging market shares posted the first back-to-back annual loss in 12 years, Chinese equities closed with the best performance since 2009. Most major Middle East stock markets ended 2014 with annual gains after wild swings. The **euro** last week traded at the lowest since June 2010, following Draghi's comments on QE and inflation; **Brent** crude touched a fresh five-year low on rising outputs before edging up slightly while **gold** prices rose slightly in spite of a stronger dollar.

Global Developments

US/Americas:

- **ISM manufacturing** in the **US** fell to 55.5 in Dec (Nov: 58.7) - the lowest level since June - with the new orders index dipping drastically to 57.3 from 66.
- **S&P Case Shiller home price index** continued to slow for the 10th consecutive month; the index gained 4.5% yoy in Oct, down from the 4.8% rise in the month before. **Pending home sales index** increased 0.8% mom and 4.1% yoy to 104.8 in Nov, denoting a still-sluggish recovery in the real estate sector.
- **US construction spending** unexpectedly fell 0.3% mom in Nov, the first decline since June, to an annual rate of USD 975bn.
- **Initial jobless claims** rose by 17k to 298k last week - the highest level since the week of Nov 22 - with the 4-week moving average up by a modest 250 to 290,750.

Europe:

- **ECB's Draghi** hinted again about plans to start **QE**, stating during an interview that "we are making technical preparations to alter the size, pace and composition of our measures in early 2015". The aim is to stop the continued fall in the general level of prices. The remarks led to a fall in the Euro.
- **German Markit PMI** reported a return to growth, with the reading at 51.2 in Dec, in line with the flash estimate, and up from Nov's 49.5; new orders gained modestly, after reporting three months of declines.
- **Eurozone money supply**, M3, increased significantly to 3.1% in Nov from the prior month's rate of 2.5% while M1, a narrower measure, accelerated to 6.9% from the 6.2% seen over the prior two months.

Asia and Pacific:

- **HSBC manufacturing PMI** reported it first contraction in 7 months in Dec in **China**, with the index dropping to 49.6 from Nov's 50. Meanwhile, the **official** data showed that manufacturing **PMI** inched lower to 50.1 in Dec. **Non-manufacturing PMI** rose to 54.1 in Dec (Nov: 53.9), with new orders up 0.4% mom.
- **India's fiscal deficit** during Apr-Nov touched INR 5.25 trillion, or roughly 98.9% of the full-year target; during the same period last year, deficit was at 93.9%.
- **Korea industrial output** advanced 1.3% mom in Nov (Oct: -1.7%), thanks to increased auto and memory chip production. Separately, the current account balance posted a record increase in Nov, rising to USD 11.4bn, outperforming the previous record of USD 11.1bn set in Oct 2013; this brings the total year-to-date current account surplus to USD 81.9bn.
- **Hong Kong retail sales** was up 4.1% yoy to HKD 41.3bn in Nov, with sales of consumer durables alone up 14.6%.

Bottom line: 2014 was an eventful year with issues ranging from the Scottish referendum to the Ukraine crisis, the oil market collapse and Abe's recent election victory influencing market behaviour. Central banks have been tested, with the ECB's Draghi still hinting about QE while emerging markets' behaviour have been divergent: Brazil and Russia recently raised benchmark rates while commodity importers have been beneficiaries of lower inflation rates. Geo-politics and oil will cast a dark shadow on markets in 2015.

<u>Regional Developments</u>

- **Fitch** revised down **Bahrain**'s outlook from stable to negative, stating that "the fall in oil prices has exacerbated the already challenging fiscal situation".
- **Egypt**'s **current account deficit** touched USD 1.4bn in Jul-Sep period and compares to a USD 609bn surplus during the same period a year ago. Meanwhile, FDI rose to USD 1.8bn in the same period compared with USD 1.246bn a year earlier.
- **Iraq**'s oil minister revealed that the country is hoping to restart (after discussions with Saudi Arabia) Iraqi oil exports from Saudi ports through Saudi - Iraqi pipeline, which was closed after the second Gulf War in 1990.
- **IMF**, following a staff visit to **Jordan**, revealed that growth is forecast to increase to 3.8% in 2015 while the current account deficit would further narrow to 5.9% of the GDP.

- **Lebanon** topped the list of countries in the region that received **technical assistance from the IMF** during H1 2014, receiving 23% of its overall allocation. Others include: Jordan (20%), Sudan (16%), the West Bank and Gaza (8%), Afghanistan and Iraq (6% each), Egypt and Libya (4% each) and Yemen (1%).
- **Oman** announced a **2015 budget** with an increase in total government expenditure of 4.5% despite lower oil prices. Oil revenues represent 80% of revenues so the impact of the 50% decline in oil prices is severe. The net result is a large budget deficit of 21% of revenue and 8% of projected GDP. This is based on an optimistic real growth rate of 5% (higher than what was achieved in 2014) and is expected to come from non-oil economic growth.
- **Bilateral trade** between **Dubai-Oman** reached AED 16bn in Jan-Sep 2014; this compares to a total of AED 19bn in 2013, which was more than thrice the value of AED 6bn reported as recently as 2010.
- **Real estate activity** in **Oman** was up 55.7% in Jan-Sep period, with the total traded value of property reaching OMR 2.3bn; the amount of fees collected on all property transactions was up 61.7% yoy to OMR 31.7mn.
- **Qatar**'s **nominal GDP** was up 4.1% yoy and 1.8% qoq to QAR 193.08bn in Q3, on account of the non-oil sector.
- **Saudi Arabia**'s 2015 budget envisions a deficit of SAR 145bn, which is slightly more than 4% of GDP; while the oil price used in calculations was not revealed, it is estimated to be around USD 55.
- **Government spending** in **Saudi Arabia** reached SAR 1,100bn in 2014, 28.7% more than the budgeted amount of SAR 855bn; revenue in 2014 was estimated to reach SAR 1,046bn, resulting in a budget deficit.
- Squashing recent calls for the establishment of a **sovereign wealth fund** in **Saudi Arabia**, the country's finance minister said that he saw no need for such a change, stating that "I believe the kingdom's policy is the most suitable for its circumstances".
- A **World Bank report** revealed that per capita incomes declined the most in Lebanon (11%) as a result of hosting **Syrian refugees** since 2011 and much less in Turkey, Jordan and Egypt (1.5%).

<u>UAE Focus</u>

- **Dubai 2015 AED 41bn budget,** a balanced one, reports a 9% increase in spending, an 11% rise in revenues and is expected to create 2530 jobs for its citizens. Spending is the largest since 2009, with wages and salaries accounting for 37% of total, while the largest contributor to revenue rise (74%) is charges for government services (up 22% from the previous budget). Tax revenues are expected to rise 12% and account for 21% of the total.
- **Dubai**'s total **non-oil foreign trade** touched AED 988bn in the Jan-Sep period, with imports accounting for the largest share at AED 621bn. Dubai Customs data revealed that trade with Asia reached AED 610bn followed by Europe at AED 198bn and Africa at AED 89bn. China was the top trade partner (AED 126bn, up 27%) followed by India (AED 80bn), US (AED 61bn) and Saudi Arabia (AED 40bn).

- **Retail sales** in **Dubai** are expected to cross AED 150bn in 2014 and forecast to grow over 5% to approximately AED 160bn by 2015, according to one of the major sponsors of the Dubai Shopping Festival.
- **Asset re-shuffling continues in Dubai with Dubai World** selling a sporting goods retail firm to **Marka** (which listed on the DFM recently) for AED 220mn.
- **Passenger traffic** through the **Dubai airport** increased 4.3% yoy to 5.565mn passengers in Nov, taking the year-to-date total to 63.97mn passengers (+5.9%). The Ukraine crisis and the sinking Ruble has resulted in passenger traffic related to Russia and other countries in the Commonwealth of Independent States plunging 18.2% yoy in Nov.

Media Review

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