

Weekly Economic Commentary, 18 Oct 2015

Markets

Wall Street closed the week in upbeat mood due to the mix of micro-and macroeconomic data. Traders appear confident that the Federal Reserve will hold interest rates for longer and hopeful that the European Central Bank may provide more stimulus to the euro zone. Overall stock in the major world markets rose to a two month high with the exception of Japan where the Topix headed south. In our region most markets recorded losses in response to weak oil prices. The yen was perky while the euro-dollar rate was broadly stable. Oil prices lost ground again in response to US inventory data showing a record level since April.

Global Developments

US/Americas:

- **The US fiscal deficit** fell to 2.5% of GDP in the 12 months to Sep 2015.
- **US core inflation** fell -0.2% mom in Sep following a decline of -0.1% in Aug, the second straight fall and the steepest in 8 months.
- **US PPI** beat all pessimistic expectations, dropping -0.5% mom in Sep after remaining flat in Aug. Lower energy prices continued to restrain price indexes.
- **University of Michigan Consumer Sentiment Index** fell in Sep to 87.2 from 91.1 the previous month. The index recorded its 3rd consecutive decline, reaching its lowest reading in 2015.
- **US industrial production** increased 0.4% yoy in Sep following an upwardly revised 1.1% gain in Aug, its paltriest gain since the 2009 recession.
- **US retail sales** saw a marginal increase of 0.1% mom in Sep, just a tad up from Aug's 0.2% growth. Falling oil prices are partly to blame for such low figures.
- **St. Louis Fed Stress Index** decreased to -0.71, lower than -0.55 a week earlier. Despite uncertainty over the first interest rate increase, the index remains below 0 indicating below-average financial stress.
- **US initial unemployment claims** declined 7,000 for the second consecutive week, reaching 255,000 from 263,000 previously.

Europe:

- **Euro zone CPI inflation dropped** to -0.1% in Sep. yoy, following a 0.1% increase in the previous month. **France's CPI** increased by only 0.1% yoy in Sep, the same as Aug's 0.1% growth, **Spain's CPI** dropped -0.9% yoy in Sep, accelerating Aug's -0.4% decline. **Italy's CPI** rose 0.2% yoy in Sep, vs 0.4% in Aug. **Inflation in the Eurozone remains restrained** by low oil prices and weak domestic and foreign demand.
- **Eurozone industrial production** grew 0.5% mom in Aug, after a revised growth of 0.8% the previous month, boding well for continuing recovery in manufacturing sectors.

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- **Eurozone manufacturing PMI** marginally dropped to 52 in Sep, in comparison with 52.3 last month indicating that the mild growth trend is nevertheless persisting.
- **The euro zone's external trade surplus** widened to EUR 11.2bn in Aug, from EUR 7.4bn in Aug 2014. In mom terms, however, the surplus shrank from EUR 31.6bn in Sep.
- **Germany's inflation** dropped to zero in Sep, after an uptick of 0.1% in Aug, while **EU-harmonized CPI** dropped -0.2% yoy showing that the reflationary effects of the ECB QE is at most wishful thinking.
- **The German ZEW indicator of economic sentiment** deteriorated to 1.9 down from 12.1 in Sep, along with a sharp deterioration of the **indicator for the current situation** to 55.2 from 67.5.
- **UK's headline CPI** decreased -0.1% yoy in Sep., after remaining constant the previous month. **UK's output PPI** declined -1.8% yoy in Sep, following a -1.9% fall in Aug. Likewise, the **input PPI** continued to drop reaching -13.3% yoy after a -14.6% decline in Aug. **UK's unemployment rate** for Q3 slipped to 5.5%, a seven year low, from 5.6% in Q2.

Asia and Pacific:

- **China's CPI** grew 1.6% yoy in Sep, down from a 2% increase in Aug, while **China's PPI** fell -5.9% yoy in Sep, the same as in Aug, driven by overcapacity in the economy.
- **Foreign direct investment into China** rose 6.1% yoy to USD 9.6 bn in Sep from USD 8.7 bn in Aug. Capital inflows have been relatively soft because due to concerns about the economy, especially in sectors related to heavy industry and housing.
- **China's M2 money supply** grew 13.1% yoy in Sep, slowing mildly from a 13.3% increase in the Aug.
- **China's trade surplus** increased to USD 60.3 bn in Sep from Aug's USD 60.2 bn, driven mainly by a strong decline in imports, while the fall in exports moderated somewhat.
- **Japan's consumer confidence** decreased to 40.6 in Sep, from Aug's 41.7.
- **Singapore's GDP** decelerated 1.4% yoy in Q3, from an upwardly revised 2% yoy increase in Q2.
- **Singapore's nonoil domestic exports** rose 0.3% yoy in Sep, partly reversing a -8.4% yoy decline in Aug.
- **India industrial production** grew 6.4% yoy in Aug, up from the 4.2% gain in Jul.

Bottom line: *The stock markets continue to display an exuberant performance despite lackluster economic data. However the abundant liquidity is hardly reaching the real economy, fueling doubts on the sustainability of such disconnect between financial and macro data. Political initiatives aimed at boosting growth potential - such as deregulation, tax reductions or infrastructure building - are not in sight. Large emerging markets such as Brazil and Turkey remain exposed to the risk of a virulent current account crisis.*

Regional Developments

- **Bahrain's** Gulf Air is currently in talks to order up to 50 **aircraft** in anticipation of rising demand and meeting the airline's needs in the next decade. The company is looking at

leasing as well as financing options to acquire new aircraft, according to the company spokesperson. Separately, various banking professionals expressed a cautious outlook for aircraft financing in the region as sustained low oil prices have slowed the flow of fresh capital.

- **Egypt** recorded 4.1% yoy **growth** in the financial year that ended in Jun, according to the investment minister, who also revealed estimates of 5-5.2% growth in the next financial year.
- **Egypt's** Prime Minister stated that the country expects to receive USD 1.5bn in **loans from the African Development Bank** by end-2015; the country will also receive a USD 3bn **loan from the World Bank** in installments over the next three years to support the state's budget, stated the Finance Minister. This is expected to boost its foreign reserves which were around USD 16.335bn in end-Sep.
- **Domestic liquidity** in **Egypt** was up by 1.9% mom to EGP 1.799trn at end-Jul, thanks to the increase in money supply, according to the central bank.
- Total investments of **Egyptian insurance firms** increased by 14.6% yoy to EGP 48.5bn in 2014, while the volume of insurance premiums was up 12.6% to EGP 14.4bn, revealed the investment minister at a conference.
- Reuters reported, citing trading sources, that **Iran** has boosted **exports of fuel oil** through the UAE and also almost doubled its imports of gasoline, despite Western sanctions.
- **Iraq** is home to 13 operational **Islamic banks**, which together accounted for 23.1% of the total capital of the private banking sector in 2014. The market share of Islamic banks in the Iraqi banking sector currently stands at 25%; with the endorsement of the new **Islamic banking law**, the share is expected to rise to 40% by 2020. The law not only set the minimum paid-in capital for Islamic banks at IQD 250bn, but also exempts Islamic banks from paying taxes or duties for transactions involving real estate assets or cars under *murabaha* (cost plus financing) or *ijara* (lease) structures.
- **Inflation** in **Jordan** fell by 0.7% yoy in Jan-Sep 2015, with declines posted in several sectors like transportation (14.2%), fuel and lighting (12.5%), beverages (1.6%) and personal objects (3.6%).
- The number of **Internet users** in **Jordan** reached 6.2 million by H1 this year, compared to 5.7 million at the same time last year, disclosed the Telecommunications Regulatory Commission. Furthermore, mobile penetration was 152% at end-Jun (2014: 147%), with around 12.3 million active mobile subscriptions (2014: 11.1mn).
- **Kuwait's** oil minister stated that the country was not planning to slow the **development of its oil projects** despite the decline in oil prices. Kuwait currently produces about 3mn barrels per day (bpd) of crude oil and by 2020 it will be able to produce 4mn bpd, according to the chief executive officer of state-owned Kuwait Petroleum Corp.
- **Kuwait Investment Authority**, which holds assets worth more than USD 500bn, is studying the option of **liquidating assets** that generate annual returns of below 9%, revealed a news report on *Al Anba* newspaper, quoting unnamed sources. The size of sales is expected to be about KWD 9bn.

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- **Oman's commercial banks** have achieved a robust 10.6 % growth in total credit at OMR 18.01bn for the first eight months of 2015, from OMR 16.28bn for the same period last year.
- **Qatar's gross national income** dipped 3.4% qoq and 17.2% yoy to QAR 150.8bn in Q2 this year; gross national savings meanwhile declined 4.2% qoq and 29.9% yoy to QAR 77.15bn, as per the Ministry of Development Planning and Statistics.
- Qatar Development Bank disclosed that the combined **export value of Qatari SMEs** stood at QAR 2.4bn last year.
- **Qatar's real GDP growth** is forecast by QNB at 6.4% in both 2016 and 2017, with near-double-digit non-hydrocarbon growth to be supplemented by increased gas production from the Barzan project.
- **Qatar** invested USD 4.9bn in **international commercial real estate sector** last year, as per CBRE Research, making it the largest source of Middle East's capital outflow into the global real estate sector.
- **Saudi Arabia** plans to issue **bonds** worth SAR 20bn to local banks this week, reported the Mal financial website, citing unnamed sources.
- **Saudi** finance ministry is **tightening control over spending**: last week, it issued a document to various government bodies asking to “bring forward the final date to make payments from budget allocations and other accounts for the current fiscal year”. In past years’, the date was around mid-Dec while this year, it is being set at Nov 15.
- **Saudi non-oil exports and imports** were both down in Q2: non-oil exports fell 17% yoy to SAR 46.64bn, while imports declined by 2.2% to SAR 166.23bn.
- **Saudis** working in the **private sector** rose to 1.7 million this year, up from about 700k in 2011, thanks to the introduction of programs like Nitaqat in 2012; the number of Saudi women working in the sector jumped about 8-times to 400k, up from only 50k four years ago. In spite of this pick-up, unemployment in the Kingdom is between 11-11.7%, according to an online newspaper.
- The three biggest **sovereign wealth funds** of oil-producing countries - SAMA, Norway's Norges Bank Investment Management and Abu Dhabi Investment Authority - have been **selling European equity holdings** since May, according to data from Nasdaq Advisory Services. The data, based on a sample of 159 European companies, with a market value of USD 1.87 trillion, showed that SAMA, Norway and ADIA sold USD 1.2bn, USD 1.1bn and USD 300mn worth of equities respectively from its current holdings of European equities.
- The **World Bank** may **compensate** the countries of the region witnessing significant inflow of displaced refugees (like Jordan, Lebanon and Turkey) for the associated fiscal costs of supporting the refugees over a long period, according to the senior adviser to the Vice President. He stated that “we are quite prepared to enter into that dialogue with our shareholders as to how we support the compensation of countries, and in particular the middle-income countries that do not have access to concessional resources, and that's the conversation that is taking place”.

- The **GCC insurance industry** is forecast to grow at double-digit rates to reach between USD 49.0-62.1bn by 2020, supported by increased awareness and favourable regulatory changes, and in spite of a challenging year in 2014, revealed a recent Alpen Capital report. Separately, S&P anticipates that the cost of regulatory compliance will rise in the short term, as insurers are faced with the need to boost expertise levels and improve their systems to meet the new regulatory demands.
- A **unified GCC visa** that would allow foreigners to visit all GCC states, similar to a Schengen visa, might be introduced as soon as mid-next year, according to an official, following a positive meeting earlier this month in Oman of the GCC tourism ministers.

UAE Focus

- The **UAE** government plans to further **reduce its dependence on the hydrocarbon sector** to 20% of GDP from the current 30% in the next 10-15 years. It even aims to have 5% contribution of the total GDP from innovation by 2021, revealed the Minister of Economy.
- The **Internet of Everything** has a potential to generate USD 4.9bn of economic value for the public and private sector companies in **Dubai**, with the latter gaining USD 3.7bn, according to Cisco's regional head.
- Knight Frank reported that **rentals** in **Dubai's** industrial and logistics districts were up an average 4% in the last six months, with Jebel Ali Free Zone the favoured location for "global occupiers"
- **Dubai Road and Transport Authority** has spent about AED 86bn since 2006, of which 75% was for capital expenditure. Current projects being undertaken include the 15km extension of the Metro costing around AED 7bn in addition to about AED 17bn to be invested in various road projects.

Media Review

El Erian on Governments and Innovation

<https://www.project-syndicate.org/commentary/creative-destruction-economic-policy-by-mohamed-a--el-erian-2015-10>

Kenya has a billion barrels of oil that might not be going anywhere

<http://qz.com/526532/kenya-has-a-billion-barrels-of-oil-that-might-not-be-going-anywhere/>

The crisis Europe needs: Eichengreen

<http://www.project-syndicate.org/commentary/border-controls-hurt-eu-by-barry-eichengreen-2015-10>

Saudi Arabia: turning frugal

<http://www.economist.com/news/middle-east-and-africa/21674403-will-it-be-enough-start-something>