

Weekly Economic Commentary, 20 Dec 2015

Markets

The Fed's move pushed down stock markets in major economies, with Japan (where the central bank announced additional easing measures) and the US recording weekly losses. The S&P and Dow recorded their worst two-day performance since Sep 1, led by a rout of financial stocks. Other factors such as option expiry and oil price fall contributed to the negative mood. Emerging and regional markets on the contrary had a positive week. On FX markets the dollar gained some ground after the Fed's decision, but overall major currencies crosses did not move much. The yuan however was pushed down by the authorities in a move intended to ease pressures on export sectors. Oil prices continued to fall and also gold trading was on the back foot.

Global Developments

US/Americas:

- After months of policy debate the **US Fed hiked the policy rate** by 25 bp, indicating a gradual pace of future rate increases probably still steeper than market's expectations.
- **US CPI** remained unchanged mom in Nov. after a marginal increase of 0.2% in Oct, as a result of a -1.3% fall in energy prices, as well as a -0.1% decline in food prices.
- **US industrial production** fell -0.6% mom in Nov following a -0.2% drop in Oct, the steepest monthly drop in 4 years. Weakness in utilities and mining led the output decline.
- **US current account deficit** widened during Q3 from USD 111 bn to 124 bn, as a result of the strong dollar and weak external economic conditions.
- **US residential constructions** maintained the momentum expanding by 16.5% yoy in Nov still led by multifamily constructions. The **NAHB index of builder confidence** saw a slight reduction to 61 in Dec, dropping by 1 point from Nov's final index reading.
- **US Initial Unemployment Claims** fell 11,000 in the week ended 12 Dec, reaching 271k from 282k previously. The 4-week moving average remained unchanged from Nov final figure.

Europe:

- **The Eurozone industrial production** advanced 0.6% mom (1.9% yoy) in Oct, following a -0.3% decrease (1.3% yoy increase) in Sep.
- The **eurozone's current account surplus** narrowed to EUR 25.9 bn in Oct, from EUR 29.7 bn in Oct 2014. The **external trade surplus** widened in Oct EUR 24.1 bn, from EUR 22.4 bn in Oct 2014.
- The **German Ifo Business Climate Index** fell to 108.7 in Dec from 109 in Nov. **Investor confidence** improved in **Germany** in Dec as the **ZEW indicator of economic sentiment** surged to 16.1 from 10.4 in Nov.

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- **The eurozone CPI inflation** accelerated to 0.2% mom in Nov from 0.1% in Oct.
- **UK CPI** rose 0.1% mom in Nov, after falling -0.1% in Oct.
- **Spain's industrial orders** dropped -2.8% yoy in Oct, down from a 1.1% increase in Sep.
- **French manufacturers' sentiment** was 103 in Dec, 1 point above Nov.
- The **UK unemployment rate** in Q3 slid to 5.2% from 5.3% in Q2, the lowest since mid-2008.
- The **UK retail sales index** rose 5% yoy in Nov, up from a revised 4.2% increase in Oct.
- The **unemployment rate in Russia** was 5.8% in Nov, 0.3% higher than in Oct.
- **Russia's industrial output** declined -3.5% yoy in Nov, a fifth straight month of decline.

Asia and Pacific:

- **China's monetary aggregate data** for Nov show some effects of monetary easing. **M2 money supply** increased 13.7% yoy in Nov, up from a 13.5% increase in Oct. Credit growth has improved somewhat, hopefully bolstering investment in 2016.
- **China foreign direct investment** totalled USD 10.4 bn in Nov, up from USD 8.8 bn in Oct.
- Unexpectedly the **Bank of Japan** indicated that it will lengthen the average maturity of government bonds in its portfolio from 7-10 years to 7-12 years. The Bank also announced a new programme, to purchase ETF's at an annual pace of nearly JPY 300 bn in addition to the program already in place which amounts to JPY 3 trn of ETF's.
- **Japan's trade deficit** narrowed in Nov to JPY -3 bn from JPY -202 bn in Oct, driven by weaker imports, while a slight increase in exports contributed to the improved performance.
- **Japan tertiary activity** rose a stronger than expected 0.9% mom in Oct, following Sep's -0.4% decline.
- Sentiment among **Japanese manufacturers** remained favorable in Q4 of 2015, with the headline **Tankan index** for large manufacturers unchanged at 12.
- **India's wholesale price index** retreated -2% yoy in Nov, compared to Oct's -3.8% slide.
- **India's monthly trade deficit** of USD -9.8 bn was unchanged in Nov.
- **Singapore's nonoil domestic exports** fell -3.3% yoy in Nov after being flat in Oct, driven by a drop in volatile pharmaceuticals exports.
- **Indonesia's monthly trade balance** surprised on the downside and turned negative in Nov, at USD -350 mn. This is the first trade deficit Indonesia has recorded for 2015.
- **New Zealand's GDP** growth accelerated to 0.9% qoq in Q3 from 0.3% in Q2.

Bottom line: The inception of the tightening cycle in the US signals the end in the US of the critical phase ensuing the Great Recession. In the rest of the world however the normalization remains elusive. China's appears to be slowly stabilizing on the back of recent monetary measures and more government spending, while Europe and Japan are struggling to revive growth. Emerging markets are dealing with lower commodity prices and dangerously high debts. The world economy in 2016 is unlikely to improve much from 2015, with modest growth in advanced economies offsetting persistent weakness elsewhere. As a consequence inflation and interest rates will stay low and commodity prices might see a rebound only in the summer.

Risks are skewed to the downside as the global financial sector is fragile and vulnerable to shocks.

Regional Developments

- **Egypt** plans to **reduce subsidies** to 30% of where they stood in Jul 2014 (as opposed to the previously announced removal of subsidies), according to the Prime Minister, on the back of lower oil prices and the discovery of a massive offshore gas field.
- **Egypt's central bank injected** an unspecified amount of **dollars** into banks (based on the outstanding credit of banks) in special measure to ease shortage (following a meeting between the governor and President earlier this month); it also sold between USD 750mn-1bn in a **dollar auction** held last week.
- The **Saudi King** ordered that the country's **investments in Egypt** exceed SAR 30bn, and also helping meet the latter's petroleum needs for the next five years. No further details were given, but the deputy head of the Saudi-Egyptian Business Council stated that these funds were likely to go into infrastructure projects over the course of the next three years.
- **Egypt's Suez Canal revenue** fell in Nov to USD 408.4mn, the lowest since Feb this year, and from USD 449.2mn in Oct.
- Investments of the **private insurance funds** in **Egypt** grew 8% yoy to EGP 43bn in 2014, according to the Chairman of the Egyptian Financial Supervisory Authority. The number of private insurance funds was at 625 and its total subscriptions were up 5.3% to EGP 5.2bn.
- **Iraq's** parliament approved last week the IQD 105.8 trillion **budget**; with revenues estimated at IQD 81.7 trillion and a deficit of IQD 24 trillion, the budget is based on projected oil exports of 3.6mn barrels per day at a price of \$45 each.
- The **IMF** is expected to finalise an agreement with **Iraq** for a programme to monitor its economy, aimed at reining in spending and reducing Iraq's budget deficit, within the next few weeks. This would establish a track record of effective performance for Iraq, which in turn could lead to a finance programme next year, according to a senior IMF official. Separately, an adviser to the Iraqi government squashed published newspaper reports of reduction in fuel subsidies, stating that the government had no such plans to lift subsidies as part of negotiations to secure a loan from the IMF.
- **Kuwait** expects the actual **2015-16 budget deficit** to be between KWD 5-6bn, as per the Finance Ministry Undersecretary, compared to the previous projection of KWD 8.18bn.
- **Inflation** in **Kuwait** registered a slight uptick to 3.2% yoy in Oct (Sep: 3.1%); core inflation also grew to 2.9% from 2.8% the month before.
- The European Bank for Reconstruction and Development (**EBRD**) approved **Lebanon's** membership, enabling the country to become a recipient of EBRD investments at a later stage.
- **Fitch** maintained **Lebanon's** long-term foreign and local currency Issuer Default Ratings at "B" with a "Negative" outlook, citing political risks exacerbated by the ongoing Syrian war, weak public finances and anemic economic performance.

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- **Oman's consumer price inflation** registered a decline of -0.55% yoy in Nov.
- **Oman** will **privatise** three state-owned companies next year, Finance Minister Darwish al-Balushi told Reuters, declining to give further details.
- **Oman's crude oil production** rose 3.1 % or by 995,708 barrels per day to 29.87mn barrels in Nov. Also, the country exported 24.61mn barrels during the same month, a daily export average of 820,206 barrels. Crude oil exports edged up 0.15 % mom in Nov.
- **Qatar's 2016 budget** is expected to post a deficit of QAR 46.5bn, the first in 15 years, with revenues and expenditures budgeted at QAR 156bn and QAR 202.5bn respectively. Health, education and infrastructure accounts for 45.4% of the total, with allocation to infrastructure alone at 25% of the total; local and international debt issuances are expected to cover the deficit.
- The “**Qatar Economic Outlook 2015-2017**” report, issued by the Ministry of Development Planning and Statistics, forecast real GDP growth at 3.7% in 2015, rising further to 4.3% in 2016 and at 3.9% in 2017, with the key risk being declining oil prices.
- **Saudi Arabia** is expected to sell a further SAR 20bn in **bonds** to local banks this week, bringing the total local currency bond issuances this year to SAR 115bn, reported the financial website *Maal*.
- The **cost of living** index in **Saudi Arabia** was up 2.3% yoy and 0.1% mom in Nov.
- **Spending on defense** declined for the first time in a decade in the **Gulf**, according to an IHS report, with spending down to USD 81.6bn in 2015 from USD 86.7bn last year. Saudi Arabia still spends around USD 46.3bn on defense, accounting for more than half of the Gulf's military budgets, making it the eighth-largest defense spender globally.

UAE Focus

- **UAE** and **China** have agreed to establish a joint strategic investment fund worth USD 10bn, with both nations contributing equal amounts, and with the aim to strengthening the new Silk Road trade routes. Additionally, the two state-owned oil companies signed a strategic cooperation agreement to collaborate on upstream oil and gas investment and related projects outside the UAE. It was revealed via Twitter that Dubai's DP World is also expected to invest USD 1.9bn in China.
- The **currency swap line** of CNY 35mn between **UAE** and **China** has been renewed for three more years, revealed the People's Bank of China. UAE will also be part of the RMB Qualified Foreign Institutional Investor scheme, with a quota of CNY 50bn. This will boost bilateral trade and investment.
- **Dubai's non-oil sector activity** (Emirates NBD Dubai Economy Tracker Index) bounced back to 53.4 in Nov from the 68-month record low of 51.9 the month before, thanks to faster output growth. However, the business expectations index declined to 58.5 in Nov (Oct: 62.1), the lowest reading since the start of the series in Apr 2012.
- The **UAE** central bank, on the heels of Fed's rate hike, **raised** the **interest rate** on its certificates of deposits by 25 basis points.

- **Inflation** in **Dubai** clocked in at 3.07% yoy and declined by 0.19% mom in Nov, thanks to declines in both transport and food costs while costs of housing and utility was up 6.87% yoy and 1.14% mom. Year-to-date, Dubai inflation stands at 4.28%.
- The **UAE** President approved **housing and service development projects** for citizens at a total cost of AED 314mn.
- The **Abu Dhabi** Water and Electricity Authority is embarking on its first **renewable energy project**, reported *Reuters*: building a 350 megawatt (MW) solar plant and plans to select a developer by mid 2016.
- **Dubai** has passed a law setting up the **Emirates Global Centre for Accreditation**, “a fundamental element for the halal sector”, to boost Dubai’s standing as an Islamic economy centre.

Media Review

A new century for the Middle East: Jeffrey Sachs

<http://www.project-syndicate.org/commentary/middle-east-sustaining-development-by-jeffrey-d-sachs-2015-12>

2015: record-breaking number of refugees

<http://qz.com/577501/2015-is-on-pace-to-have-a-record-breaking-number-of-refugees/>

America lifts ban on oil exports

<http://www.economist.com/news/finance-economics/21684531-light-sweet-compromise-puts-end-crude-market-distortions-america-lifts>

Japan adjusts its QE programme

<http://www.economist.com/news/finance-economics/21684516-central-bank-joins-effort-get-japanese-companies-spend-their-cash>

Saudi banking outlook under pressure: Fitch

http://www.zawya.com/story/Fitch_Saudi_banking_outlook_under_pressure-TR20151215nFit943313X3/