

Weekly Economic Commentary, 7 Feb 2016

Markets

After a dismal start in January, in the first week of February global stock markets took another hit - led by bank shares - especially in Europe where the DJ Euro 50 lost 5.4% and Japan where the Topix lost 4.4%. The US and emerging markets contained the losses, while regional markets skirted the global trend and rebounded strongly in tandem with oil prices. Widening our focus, the year-to-date drop in major indices such as the Nasdaq, Russell 2000, Hang Seng and Nikkei exceed 11% and weakness in equity prices has extended to the riskiest bonds. Crude oil went on a rollercoaster ride last week with a stunning rally after its biggest drop in 7 years, although the main grades ended the week in slightly negative territory. In currency markets the dollar suffered a blow due to evidence that the economy is slowing and the tightening cycle by the Fed might be put on hold. Gold continues to benefit from the sense of uncertainty and gloom in the securities markets.

Global Developments

US/Americas:

- **US non-farm payroll** employment came out on the weak side at 151,000 in Jan, almost half the figure in Dec. 292,000, when exceptionally good weather boosted hiring. The unemployment rate, calculated from the household survey, edged down to 4.9%.
- The **US ISM manufacturing index** increased from 48 in Dec to 48.2 in Jan. Both production and new orders broke above expansion level of 50 for the first time since Oct. However, the inventory index suggests the correction has room to run and the employment index decreased.
- The **US ISM non-manufacturing index** fell in Jan to 53.5 from 55.8 in Dec and 56.9 in Q4. Business activity index tumbled from 59.5 to 53.9 amid a drop in new orders, employment and net exports. In essence the services sector, which drove growth in 2015, is heading south.
- **US consumer spending** was unchanged in Dec compared to a 0.5% increase in Nov. Savings jumped to a 3-year top.
- **Initial unemployment claims** rose by 8,000 to 285,000. The **4-week moving average** increased by 2,000 to 284,750. Results confirm that job growth in Q1 is unlikely to continue at the same pace as in Q4 2015.
- **US crude oil inventories** increased by 7.8mn barrels, well above expectations of 3.7mn. Baker Hughes, reported that the rig count in the US dropped to 467, down 31 from last week, the steepest drop for 10 months.

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- **Brazil's industrial production** fell -11.4% yoy sa in Dec after -12.8% in Nov due to lack of competitiveness and a fast deteriorating economic outlook. **Inflation** in Jan remained in double digit at 10.7% yoy, almost the same rate as in Dec.

Europe:

- **Markit Economics composite PMI** for the euro area in Jan declined to 53.6 - a 4-month low - from 54.3 in Dec. Output prices dropped to the lowest level since Mar 2015.
- **German manufacturing orders** fell -0.7% mom (2.5% yoy) in Dec, following a 1.5% (2.1% yoy) increase in Nov. German manufacturing orders were buoyant thanks to perky demand from the US and the UK and the weaker euro, but these drivers are now waning.
- **Euro zone producer prices** fell 3% yoy in Dec, following a 3.2% drop in Nov.
- **The euro zone's unemployment rate** fell to 10.4% in Dec, down from 10.5% in Nov and 11.4% a year earlier.
- **Retail sales in the Eurozone** were surprisingly perky rising 0.3% mom (1.4% yoy) in Dec after remaining flat (1.6% yoy) in Nov.
- **The UK Halifax house price index** was up 1.7% mom in Jan, following a 2% increase in Dec. The index was up 9.7% yoy in the 3 months to Jan after rising 9.5% over the preceding 3 months.

Asia and Pacific:

- **The People's Bank of China** announced new measures to support the real estate market: the down payment for first-time homebuyers will be lowered to 20%, from 25% while for second home buyers it will be lowered to 30% from 40%.
- **The Caixin/Markit PMI for services in China** rose to 52.4 in Jan, its fastest pace in six months, from a 17-months trough of 50.2 in Dec.
- **Japan's consumer confidence** fell to 42.5 in Jan from Dec's 42.7. Sentiment on overall livelihood, employment and income growth all declined.
- **Bank of Japan governor Kuroda** vowed to take rates further into negative territory observing there is no limit to easing.
- **Indonesia GDP** expanded at 5.04% yoy in Q4 2015, compared to 4.79% in Q4 thanks to a 7.3% yoy increase in public spending
- **South Korea** launched a KRW 21 tn (USD 17.4 bn) **stimulus plan** amid a crushing drop in its exports. Q1 public spending will increase by KRW 6 tr, to KRW 144 tr won, so that more than 40% of public spending will take place in Q1.
- **Korean monthly trade surplus** narrowed to USD 5.3 bn in Jan from USD 7 bn in Dec. **Inflation** softened to 0.8% yoy in Jan after Dec's 1.3% increase.
- **Taiwan's CPI** ticked up 0.8% yoy in Jan, compared with a 0.1% yoy gain in Dec, driven by stronger utility prices, while transport costs declined.
- **Malaysia's trade balance** fell to MYR 8 bn in Dec, from Nov's MYR 10.2 bn, driven by 1.4% yoy growth in exports and a 3.2% gain in imports.

- **Australia's retail trade** remained flat in Dec after a 0.4% rise in Nov. Also, **Australia's monthly trade balance** widened to AUD 3.5 billion in Dec, from Nov's AUD 2.7 billion shortfall.
- **New Zealand's unemployment** rate fell to 5.3% Q4 2015, from 6% in Q3 2015.

Bottom line: *The last bright spot in the global economy, the US labour market has lost some of its shine, confirming the slow deterioration of the growth prospects. The Federal Reserve started the tightening cycle in Dec based on the strength of the US labor market and the expectation that in full employment sooner or later wages would generate levels of inflation consistent with its long term target. This benign baseline scenario has been put into question and NY Fed President Dudley last week expressed concern that financial conditions have tightened since the Fed raised interest rates and that the strong dollar is unduly hurting the manufacturing sector. How will the Fed policy adapt to the changing reality is not clear and such uncertainty is sapping financial markets.*

Regional Developments

- **Bahrain's** finance minister stated that austerity steps were being planned (in line with IMF recommendations) to reduce its budget deficit, also revealing that the country aimed to balance its budget "within three budgetary cycles" (i.e. 6 years, as budget plans are drafted for 2 years). This statement followed a warning from IMF officials that "external and fiscal vulnerabilities have intensified, and consumer and investor sentiment has weakened... a sizable fiscal adjustment is urgently needed to restore fiscal sustainability, reduce vulnerabilities, and boost investor and consumer confidence".
- **Egypt PMI** shrank for the 4th consecutive month - to 48 in Jan vis-a-vis Dec's 48.2 - as export orders declined and output fell. Declines were seen across the board: the new export order sub-index fell to 40.2 in Jan (Dec: 43.5), new orders declined to 47.7 (48.8) and output sub-index fell to 46.1 (48.2).
- **Egypt's M2 money supply** was up 18.6% yoy to EGP 1.9 trillion at the end of Dec, according to central bank data.
- **Egypt's Arab Investment Bank** is likely to float on Cairo bourse, after state-run National Investment Bank, which owns a 91.5% stake, announced its plans to float some of its shares.
- **Iraq** needs USD 1.56bn this year, for **financing its humanitarian crisis** caused by the war against the Islamic State - more than 3.3mn people have been displaced since 2014.
- **Jordan** reported a total **population** of 9.5mn, of which 2.9mn are non-Jordanians. According to the census, Syrians constitute 46% of non-Jordanians living in the country and 13.2% of the overall population
- **Subsidy cut discussions** dominate in **Kuwait** this week: the Assembly bureau is scheduled to meet with the Supreme Planning Council's economic committee today (Feb 7), to discuss "rationalizing" subsidies on public services. The Assembly will then discuss the issue on Feb 9 in an open meeting.

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- **PMI in Lebanon** rose to a 6-month high of 49.1 in Jan (Dec: 47.9), supported by output and new orders falling at slowest rates since last July. New export orders, however, fell for the sixth consecutive month and at the steepest rate since Oct.
- **Retail and personal loans in Lebanon** grew 3.25% yoy and valued over USD 17bn at the end of 2015, according to the president of the Association of Banks in Lebanon.
- **Consumer confidence in Lebanon** stagnates in H2 2015: the confidence index recorded an average of 36.9 in Q4 2015 (Q3: 39.5); only 2.5% of surveyed Lebanese feel that consumer confidence picked up in H2 2015, the lowest rate since the survey was initiated in 2007.
- The Governor of the central bank of **Oman** reaffirmed a strong commitment to the **dollar peg**, after the Rial dropped to its lowest level in the forwards market for a decade.
- **Commercial banks in Qatar** are discussing the possibility of reducing the **repo rate** with the central bank, given the current tightening liquidity conditions. The repo rate has been at 4.5% since Aug 2011 and the bankers are requesting it be cut to 2.0-2.5%, reported *Reuters*.
- **S&P** disclosed that slower lending growth and higher credit losses (especially in contracting) could weigh in on the profitability of **Qatar banks** this year.
- **Saudi Arabia PMI** fell to a new record-low of 53.9 in Jan, subsequent to registering a previous low of 54.4 in Dec. The rate of export growth was by far the slowest on record, and relatively subdued growth was seen in output, employment and input buying.
- Samba estimates that **Saudi Arabia**, assuming a **VAT** rate of 5%, could gain additional **revenues** of around SAR 35bn or about 1.2% of 2018 GDP.
- **Remittances from Saudi Arabia** increased 2.3% yoy to an all-time high of SAR 156.9bn in 2015.
- Oil and gas sector **contracts in Saudi Arabia** accounted for three-quarter of total contracts in Q3, the latter valued at SAR 60.9bn, according to the NCB Construction Contracts Index Third Quarter 2015. This was followed by residential real estate sector (10% of total contracts) and the power sector (SAR 2.7bn).
- In **Saudi Arabia**, about 38% of **banking** financing comes from **Islamic** banks and 28% from the Islamic windows of conventional banks, reported Fitch. Four banks are fully Sharia-compliant while 8 others provide a mix of Sharia-compliant and conventional banking products and services.
- **GCC sovereigns** are looking to tap the **global loan market**, as per NBK's economic update on GCC debt market. The report identified two main sovereigns, reporting that Qatar is seeking USD 10bn, while Oman is looking for around USD 1bn. Debt issuance activity was robust in 2015, driven by sovereign activity; yields on Dubai 2021 and Qatar 2022 paper ended the year at 3.64% (flat yoy) and 2.81% (down 19bps), respectively.
- **Wars, terrorism and cheaper oil prices** are factors which drove down **MENA growth** to just 2.6% in 2015, according to the **World Bank**. The new report estimates that five years of war in **Syria** and subsequent spillovers to neighboring countries have cost the region some USD 35bn in lost output (measured in 2007 prices), equal to Syria's GDP that year.

UAE Focus

- **UAE PMI** clocked in at a 46-month low of 52.7 in Jan (Dec: 53.3), with output the weakest in 27 months and rate of hiring the slowest in almost four years. The slowing trend continues as the reading for Q4 last year, at 53.9, was the weakest on average in over three years.
- The **UAE** economy is expected to **grow** at 3.5% or higher this year, according to the Minister of Economy, given the limited impact of lower prices on the economy as non-oil sector contributes up to 70% of GDP. The Minister also revealed that VAT rates were likely to range between 3-5%, starting 2018.
- **Abu Dhabi** nominal **GDP** grew to AED 209bn in Q3; real GDP was up by 5.5% yoy to AED 200bn. Non-oil sector's contribution to GDP remained high at 65% in Q3 - this was revealed to be the highest contribution rate registered by these activities in the history of the emirate.
- **UAE non-oil trade** touched AED 729bn in Jan-Sep period, stable compared to a year ago; during this period, imports were down by 2% while exports rose 25%. Native gold and semi-processed gold topped the list of imported goods (15% of total non-oil imports) while vehicles came in second (7%).
- Official estimates from **Dubai Tourism** revealed that the emirate attracted over 14.2 million overnight visitors in 2015 (+7.5% yoy growth). Tourists from the GCC were 3.3 mn (+12.8%) and within that Saudi Arabia and Oman accounted for 1.54mn and 1mn tourists respectively. **India** became Dubai's number one source market for the first time by bringing in over 1.6mn tourists.
- **Dubai airport** remained the world's busiest for **international passengers**, with passenger traffic at 78mn in 2015 versus 70.5mn in 2014, supported by the addition of new airlines and routes. **India** retained its position as Dubai's single largest destination country last year, with 10.4mn passengers (+17%). Dubai International airport is to be expanded to handle 118mn passengers a year by 2023, 18mn more than the previously slated cap of 100mn passengers, revealed the chief executive, as an "insurance policy" aimed to compensate for any delays in the expansion of the Al Maktoum international airport.
- **Emirates** continues to be the **most valuable airline brand**, revealed a Brand Finance report: with a brand valuation of USD 7.7bn, it ranked 171st on the report that ranks the top 500 global brands. US carrier Delta was the second most valuable airline ranked 218, followed by American Airlines (227), British Airways (316), United (327), Air China (364), Southwest (426), Qatar Airways (450) and China Eastern Airlines (464).
- **UAE visitors into UK** grew by 32% yoy to 260k in Jan-Sep last year, while spending was marginally up by 3% to GBP 437mn, revealed a UK tourism official.
- The **UAE** announced the setting-up of dedicated **courts** to handle **intellectual property rights** disputes and small claims. An intellectual property court has already been set up at the Abu Dhabi Court of First Instance.

Media Review

A rebuttal of the stranded energy assets argument after the Paris climate conference

<http://www.omfif.org/media/1228450/nick-butler-january-bulletin-2016.pdf>

Global GDP growth with forecasts to 2020

<http://www.statista.com/statistics/273951/growth-of-the-global-gross-domestic-product-gdp/>

Market volatility in the global economy: Roubini

<http://www.project-syndicate.org/commentary/market-volatility-in-global-economy-by-nouriel-roubini-2016-02>

Aid for Syrian refugees and related peace talks: an update

<http://www.economist.com/news/middle-east-and-africa/21690110-big-conference-aid-syrian-refugees-gets-under-way-london-peace-talks>

MENA and energy efficiency

http://www.zawya.com/story/MENA_steps_up_energy_efficiency_drive-ZAWYA20160201100201/

Texas shale company sell equities to lure investors

<http://www.bloomberg.com/news/articles/2016-02-02/texas-shale-drillers-lure-2-billion-in-new-equity-to-permian>