

Weekly Economic Commentary, 27 Mar 2016

Markets

Markets reacted negatively to the terrorist attacks in Brussels during the Easter week, when activity in Western bourses is subdued. However heavy losses extended to all markets, even those little influenced by European vicissitudes, thereby underscoring that, apart from the jolt provided by central banks, stock valuation lack durable support by fundamentals. Regional markets also were generally down, although by less than the MSCI emerging markets. In currency markets the dollar gained on major crosses due to a mild safe haven effect, but gold prices, which were lifted after the news of the bombing spread, ended the week in the red. Oil prices remained more or less stable despite a sizeable inventory build up in the US.

Global Developments

US/Americas:

- **US real GDP** expanded 1.4% qoq in Q4, down from 2% growth in Q3. Consumption, residential investment and federal government spending boosted growth; inventories, trade and nonresidential fixed investment were drags.
- **State personal income** growth slowed down to 0.8% qoq in Q4, down from 1.3% in Q3 confirming that the economy ended 2015 on a weak note.
- **New orders for durable goods in the US** plunged -2.8% mom in Feb after a -4.9% in Jan. Weakness was across the board with orders down -1.8% and shipments -1.1% lower. Durable inventories fell -0.3%.
- **US economic activity** decelerated in Feb as recorded by the Chicago Fed National Activity Index, which dropped to -0.29 from 0.41 in Jan.
- **Existing-home sales** declined dramatically in Feb. falling -7.1% mom (+2.2% yoy) due to a shortfall in supply in the short term. **New-home sales** grew 2% mom in Feb, offsetting Jan's decline.
- **Initial unemployment claims** increased by 6,000 to 265,000, but the 4-week moving average was unchanged at 268,000. Continuing claims fell -39,000 to 2.179mn.

Europe:

- The **eurozone's monthly current account surplus** narrowed to EUR 6.3bn in Jan, from a revised EUR 8.6bn a year earlier.
- The **Conference Board Leading Economic Index** for the eurozone was 106.5 in Feb, down 0.2 of a point from Jan.
- **Investor confidence in Germany** improved in Mar with the ZEW indicator climbing to 4.3 from 1 in Feb.
- **The ZEW expectations index** for the eurozone fell from 13.6 to 10.6.

Prepared by:

- **The German Ifo Business Climate Index** rebounded to 106.7 in Mar from 105.7 in Feb lifted by the current assessment sub-index.
- The **UK headline CPI** rose 0.3% yoy in Feb, the same rate as in Jan. The **output producer price index** fell -1.1% yoy in Feb after dropping -1% in Jan.
- **Spain's producer price index** slid -5.7% yoy in Feb vis à vis -4.2% in Jan.

Asia and Pacific:

- **Japan's CPI**, excluding fresh food, was flat at in Feb, which represents another blunder for Abenomics which has so far virtually missed all its objectives.
- The **March Reuters Tankan survey** showed that manufacturing worsened by 1 point from Feb to +6. Sentiment in the manufacturing industry has remained practically unchanged since Sep 15 at subdued levels. Transport equipment was the only sector to report an improvement.
- **South Korea's GDP**, expanded 0.7% qoq in Q4 compared to 1.3% in Q3.
- **Singapore's industrial production** fell -4.7% yoy in Feb from a revised 0.1% increase in Jan.
- **Taiwan Industrial production** declined -3.6% yoy in Feb, following a -5.7% drop in Jan. The fall was driven by weaker machinery and equipment productions.
- **Taiwan retail trade** in Feb gained 0.1% yoy after surging 6.9% in Jan.

Bottom line: The data flow last week was rather scant and did not reserve major surprises, although from durable orders in the US to inflation in Japan the malaise was once again prevailing. Concerns over the global security situation -- exacerbated by the negative political repercussion across the EU and in the primary season in the US -- have spooked the optimism injected by central banks' action.

Regional Developments

- **Inflation in Bahrain** rose by 0.8% mom (+2.9% yoy) in Feb - the highest since Jan '14. Prices of food and non-alcoholic beverages rose by 6.8% yoy while housing and utility costs grew 0.6%.
- **Saudi Arabia's** Public Investment Fund signed an **MoU** with **Egypt** to invest upto SAR 30bn in clean energy, tourism and housing sector projects.
- **Jordan's net public debt** rose to JOD 22.8bn in 2015 from JOD 20.5bn the year before. Net public debt accounted for 84.2% of estimated 2015 GDP (2014: 80.8%).
- **Credit growth in Kuwait** was up by 7.6% yoy in Jan; credit was down by KWD 117mn on declines in credit extended to non-bank financials and for the purchase of securities.
- **Kuwait** announced **new discovery of substantial light crude** deposits. Currently, Kuwait has an estimated 102 billion barrels of proven oil reserves and produces 3mn barrels per day.
- The World Bank granted **Lebanon** a USD 100mn **loan to support educational projects**, for schooling needs of the Syrian refugees, while revealing that the country's political problems were holding back an already agreed package worth nearly USD 1bn. The country also

received USD 373mn in loans from the Islamic Development Bank to finance infrastructure projects.

- **Capital inflows** into **Lebanon** fell 27.3% yoy to USD 589mn in Jan 2016, while the balance of payments deficit widened to USD 790mn (Jan 2015: USD 280mn), according to a report from Bank Audi.
- The **value of real estate transactions** in **Lebanon** surged by 40.6% yoy to USD 1.4bn in Jan-Feb 2016. The average value per real estate transaction was USD 149,058, up 11.9% yoy from Jan-Feb 2015. Meanwhile, there were reports that GCC nationals were struggling to sell their property in Lebanon at 30-40% below the price at which they bought.
- **Oman** is close to cutting **subsidies for liquefied petroleum gas** that cap domestic prices of the fuel, according to the undersecretary at the Ministry of Oil and Gas.
- **Oman's** Minister of oil and gas expressed confidence about a **25% rise in oil prices** this year if the freeze agreement between OPEC and non-OPEC producers goes into force next month.
- **Oman** is **rescheduling about 5% of its LNG** shipments in 2016 due to higher domestic demand for power generation.
- Construction started on a QAR 11bn **power plant** in **Qatar**, which when completed is expected to generate 2,520MW of electricity and 136mn gallons of water a day i.e. a 22% increase in the current electricity output and a 25% increase in water production.
- **Saudi Arabia's** finance minister stated that the **country grew at close to 3.5% last year** and that it is expected to grow this year as well, albeit at a lower pace.
- The governor of the **Saudi Arabian** General Investment Authority revealed that about 133 recommendations on **improving the country's competitiveness** had been approved and that this would be rolled out within the next six months.
- **Inflation** in **Saudi Arabia** edged down -0.1% mom and 4.2% yoy in Feb (Jan: 4.3% yoy).
- **Saudi Aramco** will continue to **invest in upstream and downstream sectors**, according to the company's chief executive, who also expects prices to adjust upwards by end of the year.
- **Saudi government** issued SAR 20bn worth of three-, five- and seven-year **bonds** to local banks last week, as per the *Maal* financial website.
- A prominent Saudi real estate businessman claimed at a conference that there is a **shortage of about 1.7 million houses in the Kingdom** and 130,000 in Riyadh. Separately, Saudi Arabia and South Korea have signed an agreement to build 100,000 houses over the next 10 years in the north of Riyadh costing SAR 75bn.
- **GCC integration** - in trade, investments and institutions - could result in the region boosting the economy by USD 36bn and becoming the sixth-largest economy globally by 2030, according to **EY** (Source: <http://www.ey.com/EM/en/Issues/Business-environment/ey-strength-in-unity>).
- **GCC banking revenues** grew by 7.2% in 2015, down 3.0% from the previous year, according to a recent BCG study. Oman banks were on top, reporting 9.6% growth in revenues and 10.5% in profits.

UAE Focus

- **Foreign assets** at the UAE central bank grew 11.4% yoy to AED 306.1bn in Feb. Bank lending grew by 7.9% in Feb (Jan: 7.4%) while money supply M2 was up 4.2% (Jan: 5.1%).
- The UAE Ministry of Finance is preparing **16 Federal laws** to support and strengthen the **banking sector**, including those on the Central Bank, the monetary system, money laundering, the Federal Financial Services Authority, financial services, law for leasing, and mortgaging movable assets. No further details or timeline were provided.
- **UAE banks'** domestic credit grew 8.3% during Jan-Nov 2015, versus 6.2% growth in 2014, reported the Ministry of Finance. Banks' assets were valued at AED 2.42bn by Q3 last year, recording a 4.3% yoy growth.
- **Abu Dhabi nominal GDP** grew 5.5% yoy to around AED 200bn in Q3 2015, with non-oil GDP growing at 7.1% versus oil growth at 3.9%. The relative contribution in current prices of non-oil activities to GDP touched 65% in Q3 versus 49% in 2014.
- **Inflation in Abu Dhabi** was up 3.3% yoy in Jan-Feb 2016; the sub-group housing, water and electricity alone accounted for 79.5% of the rise in prices.
- **Registered real estate transactions in Dubai** touched AED 68.5bn in the first two months of this year, while on Mar 24 alone, 170 deals worth AED 1.472bn were reported by the Dubai Land Department.
- A contract has been signed to expand the passenger terminal at the **Al Maktoum international airport**; though the deal value was not mentioned, the expansion is expected to finish by mid-2017.
- UAE was ranked the **second most popular international destination for Muslim travellers**, after Malaysia, by the MasterCard-Crescent Rating Global Muslim Travel Index (GMTI) 2016 (which ranked 130 destinations). The index is based on indicators like availability of halal dining options, access to prayer spaces, airport facilities, sharia-compliant accommodation options, ease of communication, air connectivity and visa-free travel.

Media Review

The oil crash is over, maybe

<http://www.businessinsider.com/the-oil-crash-is-almost-over-2016-3>

The financial fallout from falling oil prices

<https://next.ft.com/content/d48b1922-eadd-11e5-bb79-2303682345c8#axzz43XB9mnlP>

Can you expect to see the Dow Jones at 100,000 during your life time?

<http://theirrelevantinvestor.com/2016/03/11/surviving-the-short-term/>

BlackRock downplays fears of a US recession

<http://www.bloomberg.com/news/articles/2016-03-22/blackrock-says-there-won-t-be-a-recession-bearish-on-treasuries>

IMF: Reforms to unlock the potential of the Middle East

<http://www.imf.org/external/pubs/ft/survey/so/2016/car032216a.htm>

<http://www.imf.org/external/pubs/ft/dp/2016/mcd1601.pdf>

<http://www.reuters.com/article/us-imf-growth-mideastcentralasia-idUSKCN0WO2DJ>

Saudi Arabia invites pitches from banks for IPO advisory roles

http://www.zawya.com/story/Saudi_bourse_asks_banks_to_pitch_for_IPO_advisory_roles-TR20160323nL5N16V4JPX2/

Fitch: Devaluation Moderately Positive for Egyptian Banks in Long Term

<http://www.reuters.com/article/idUSFit953032>

Egypt's foreign currency resources are dwindling

http://www.zawya.com/story/Egypt_s_foreign_currency_resources_dwindling-ZAWYA20160320054932/