# Weekly Economic Commentary, 17 Apr 2016

**Markets**

Global stock markets recorded strong performances last week with the quarterly reports of US largest banks highlighting a solid US economy and positive macro data from China. Regional markets were all on the rise, lifted by resilient oil prices and a more favourable outlook for emerging markets. Currency crosses saw the dollar regaining a few positions, while the GBP, battered by the Brexit prospects, rebounded sharply after the BoE voted unanimously to keep rates on hold at record lows. More generally in FX markets investors are not taking positions on the basis of macro analysis, but are placing bets on which central bank will change policies first. Oil prices were pushed up by expectations of a (for us unlikely) grand deal in Doha today, which could keep a lid on supply. Gold suffered its first weekly drop in three as strong dollar and global equities reduced the appeal of a safe-haven.

**Global Developments**

**US/Americas:**

- **US industrial production** fell 0.6% mom in Mar, the second consecutive slip. Almost all production outputs recorded a decline during the month, with auto-manufacturing recording the biggest decline.
- **US retail sales** unexpectedly dropped -0.3% mom in Mar after a flat reading in Feb, as households curtailed purchases of automobiles and other items. This number corroborates evidence that economic growth stumbled in Q1.
- **US inflation rose** to 0.9% yoy in Mar from 1% in Feb. Residence, medical care and food slowed, while energy prices declined.
- **Fitch maintained the USA triple A** credit rating and stable outlook, although it could not avoid lambasting the deteriorating debt and deficit outlook.
- **US import prices** rose 0.2% mom in Mar. after two consecutive drops in Jan and Feb, the 1st increase since Jun, highlighting that the impact of lower oil prices is gradually diminishing.
- **US PPI recorded its** 2$^{nd}$ consecutive monthly decline, dropping by -0.1% mom in Mar. The energy PPI reported its first gain since Nov, while services prices were among the big decliners.
- **US initial claims for unemployment** benefits decreased by 13,000 matching Mar 3rd reading, the lowest since November 1973. It marks the 58th straight week with claims below 300,000, the level associated with a healthy jobs market.
- The preliminary **University of Michigan consumer confidence index** dropped 1.7 points in Mar, falling to 90, the lowest since Oct and the third consecutive monthly decline.

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Meanwhile the **Conference Board leading indicators index** crawled up by 0.1% in Feb for the first time in three months.

- **The US Federal government ran a deficit** of USD 108bn in Mar, compared with a USD 52.9bn a year earlier. Federal revenues fell 2.7% on yoy basis to USD 227.8bn while spending increased 17%. From Oct to Mar the deficit was USD 461.04bn, up almost 5% from the first half of the 2015 fiscal year.
- The **Fed Beige book** painted a moderately positive picture with the economic situation improving in half of the 12 districts, steady in four, and downbeat in the remaining two.

**Europe:**

- Following a strong Jan mom growth of 1.9%, **Eurozone industrial production** slid -0.8% mom in Feb.
- **Deflation pressures in the Eurozone** eased somewhat in Mar, with CPI flat yoy after -0.2% yoy in Feb.
- **The euro zone's external trade surplus** was almost stable in Feb at EUR 19 bn from EUR 20 bn a year earlier.
- The **UK inflation** rose to 0.5% yoy in Mar compared to 0.3% in Feb. Low oil and food prices continue to cap the headline figure.
- **Russia's Q1 current account surplus** collapsed to USD 11.7bn, from USD 30bn a year earlier while the net capital outflow slowed to USD 7bn, from USD 30bn.

**Asia and Pacific:**

- **China's Q1 GDP** growth came in at 6.7% yoy, slightly softer than Q4, but in line with the government's full-year growth target range of 6.5%-7.0%. Housing and infrastructure sectors were strong offsetting a slowdown from financial services (due to the bubble burst).
- **China CPI** remained relatively strong in Mar, at 2.3% yoy, the same result as for February.
- **Chinese PPI** fell -4.3% in Mar, following Feb's -4.9% drop. Excess capacity remains a drag for heavy industries' pricing power.
- **China's industrial production** rose 5.4% yoy in the combined Jan-Feb period, versus a 5.9% increase in Dec. The slowdown in production growth is the result of soft export demand and weak domestic demand for heavy industrial output.
- **China's monthly merchandise trade surplus** fell slightly to USD 29.9bn in Mar from USD 32.6bn in Feb. Exports and imports rebounded strongly after the Lunar New Year, although activity remains subdued compared to prior months.
- **China's M2 money supply** grew 13.3% yoy in Feb, decelerating from a 14% increase in Jan. Credit growth fell sharply, suggesting the Jan surge was related to New Year demand, not to easier credit policy.
- **Foreign direct investment into China** plunged to USD 8.5bn in Feb (-1.3% yoy) from USD 14.1bn in Jan.
- **Chinese retail trade** cooled to 10.2% yoy in the combined Jan-Feb period from Dec's 11.1% expansion. The slowdown in other sectors of China's economy is discouraging retail spending.

- **China's fixed asset investment** growth picked up slightly to 10.2% yoy through Jan and Feb, from 10% in Dec.
- **Japan's core machinery orders** were down -9.2% mom in Feb, after increasing 15% in Jan.
- **India's industrial production** rose 2% yoy in Feb, after 3 months of negative figures. However, such a paltry rate for a large emerging economy is hardly satisfactory.
- **Taiwan's econom**y continues to suffer from falling export demand. The monthly trade surplus widened to USD 4.5bn in Mar from USD 4.2bn in Feb, with the double-digit fall in exports offset by an import drop.
- **Korea's unemployment rate** soared to 4.1% from 3.5%, the highest rate since 2010. The move was driven in part by a higher participation rate, while employment rate remained flat.
- **Malaysian industrial production** grew 3.9% yoy in Feb, up from 3.3% in Jan driven by surging electricity production.
- **Singapore's GDP** expanded by 1.8% yoy in Q1 2016, the same result as Q4 2015. The fastest growing area of the economy, surprisingly, was the construction sector.
- **The Monetary Authority of Singapore** in a surprise move eased its **monetary stance**, moving to a target of zero FX appreciation, a policy last adopted during the 2008 financial crisis. Hit the local dollar and other EM currencies.

**Bottom line: A sustainable rebound in the global economy is not in sight. The IMF in its World Economic Outlook highlighted risk of "widespread secular stagnation" and warned that the risks to growth are on the downside. It called for fiscal and structural support needed to ease burden on monetary policy. The IMF also reduced its global growth forecasts for 2016 by 0.2% to 3.2% and 3.5% in 2017, downgrading estimates for advanced and emerging economies: the US economy will advance just 2.4% this year, Japan 0.5%, the euro area 1.5%. The exception is China, expected to grow by 6.5% in 2016, up from a previous forecast of 6.3%. This uplift is the result of additional credit easing measures, which are exacerbating an already worrisome debt accumulation. For the time being the stimulus seems to work as GDP, industrial production, fixed asset investment and retail sales are all rising.**

## Regional Developments

- The **IMF** lowered overall growth forecasts for the **GCC** region, with **Saudi Arabia and UAE** growth estimates down to 1.2% and 2.4% in 2016 (2015: 3.4% and 3.9% respectively). Among oil-importers, growth is expected to remain subdued as "gains from greater political stability, economic reforms, reduced drag from fiscal consolidation, and lower oil prices are offset by spillovers from security disruptions, social tensions, and spillovers from regional conflicts". In the wider MENA region, growth is expected at 2.9% this year (2015: 2.3%) and estimated to rise further to 3.3% next year.
- The **World Bank** is planning to provide **Egypt** with USD 1bn, the first tranche of the USD 3bn **loan**, after the Parliament passes the economic reform programme (expected in Apr).

- **Urban consumer inflation** in **Egypt** edged down to 9% in Mar (Feb: 9.1%), though core inflation grew to 8.4% yoy compared to 7.5% the month before.
- **Egypt**'s finance minister revealed plans to reduce spending on **energy subsidies** by almost half to EGP 35bn from about EGP 61bn in the 2015/16 budget. However, this is partly due to the lower oil prices and as a result of "new reforms" to be outlined by the Petroleum Ministry, according to the deputy PM.
- Saudi **Aramco** has reached an agreement with **Egypt** to supply the country 700k tonnes of **petroleum products** a month under a USD 23bn 5-year deal (with an interest rate of 2%).
- **Egypt**'s Tourism Minister stated in an interview that while overall **tourism** was down 40% yoy in Q1, the visitors from the Gulf were up 45%. Separately, the Tourism board reported a 6% increase in visitors from Saudi Arabia during the Jan-Feb period.
- **Kuwait**'s plans to **increase utility prices** for the first time in 50 years: though the Parliament approved the government's plan to hike water and electricity prices for expatriates and businesses, it voted against including the homes of Kuwaiti citizens. A second round of voting is coming up on Apr 26.
- **Kuwait** awarded **projects** worth KWD 10bn in 2015, a compound annual growth rate of 84% compared to 2013, according to Markaz estimates. The company's research head disclosed that while there were 420 ongoing projects in Q1 2016, 19 of them (valued at KWD 34bn) were placed on hold and another 20 projects (worth KWD 7bn) were shelved.
- In **Lebanon**, the number of **online financial embezzlement** was 84 transactions, causing a loss of USD 12mn in 2015, according to the secretary of the Special Investigation Commission.
- The **Omani government** is planning to update its **five-year plan** with additional measures to reduce the dependency on oil revenues, boost growth and balance its budget, according to an editorial on the Times of Oman.
- **Power firms** in **Oman** plan to invest around OMR 400mn for expanding and upgrading transmission and distribution networks in 2016.
- **Companies listed on the MSM** reported a 3.3% growth in combined net profit to OMR 716mn in 2015, up from OMR 693mn in 2014.
- **Qatar**'s **GDP growth** was up 4% yoy in Q4 last year (Q3: 3.4%), with the non-oil sector reporting growth of 7.4% yoy and 1.7% qoq.
- **Qatar**'s central bank has issued a circular detailing new **maximum limits** on open positions that **banks** can hold in **foreign currency**, reported Reuters last week. The limit for dollar open positions is capped at 25% of capital and reserves, while the limit set for all other foreign currencies was set at 5%.
- **Fitch Ratings** cut **Saudi Arabia**'s long-term foreign and local currency issuer default ratings to "AA-" from "AA" with a negative outlook, on weak oil prices. The company expects Saudi "oil output to stabilise and non-oil GDP to be hit by fiscal consolidation measures and weaker confidence".

- Having received significant positive response from banks for a loan of between USD 6-8bn *(reported in the weekly commentary dated Mar 13, 2016)*, **Saudi Arabia**'s Finance Ministry is now in the process of deciding how much to borrow from each of the banks that have submitted orders, as well as the final size of the loan.
- **Investment funds** in **Saudi Arabia** grew 11.2% yoy in 2015, with with total fund asset investment worth SAR 180.3bn, according to the Capital Market Authority.
- **Saudi Arabia** has reportedly **lifted bans on exports of steel and cement**; though further details are not available, the *Makkah* newspaper reported that among the conditions for easing the export ban would be payment (to whom is still unclear) of the energy costs difference between the local and international market.
- The **IMF** has agreed to a 4-year USD 2.8bn **bailout for Tunisia**, subject to approval from its Executive Board. This replaces the USD 1.6bn bailout which expired last year, and is conditional on implementation of economics ranging from tax systems to strengthening central bank independence.
- The **GCC** nations are expected to **borrow** between USD 285-390bn through 2020, to finance budget deficits, according to Markaz research. The countries are expected to finance their deficits partly through borrowing and the rest by tapping fiscal reserves.
- Total committed and planned **energy investments** in the **MENA** region is estimated to touch USD 900bn over the next five years, according to APICORP. The report states that USD 289bn of investment has already been committed to projects under execution in the region, while an additional USD 611bn worth of development is planned.
- The **OECD** disclosed that **official development assistance** (ODA) grew 6.9% yoy (in real terms) to a record USD 131.6bn in 2015. Funds spent on hosting and processing refugees in donor countries more than doubled to USD 12bn in 2015 - making up 9.1% of ODA, compared to 4.8% in 2014.

## UAE Focus

- The **contribution of oil to UAE's GDP** - currently around 30% - will be reduced to 20% by 2021 and further to zero in the next 50 years, revealed the Minister of Economy. He also stated that UAE aims to increase its contribution of **FDI** to 5% of GDP over the next five years.
- The **UAE** central bank is studying means to **standardise** the calculation of **EIBOR** across the 11 banks to make sure the quotes are uniform across the panel. While the EIBOR is currently used to price financial instruments, these rates are different from the rates at which the banks actually lend. No further explanation was given as to what action would be taken.
- **Dubai**'s **non-oil private sector** business activity in Mar, at 52.5 (Feb: 48.9), recorded its fastest growth in four months, thanks to output and new orders growth.
- Two **new fees** were announced in **Abu Dhabi** last week: a municipal fee, to the tune of 3% of annual rent, for expatriates renting homes is to be collected by the Abu Dhabi Water and Electricity Authority; the Abu Dhabi Tourism and Culture Authority will begin collecting a

fee from hotels across the emirate, with a rate of 4% of the guest's bill along with a AED 15 fee per night for each room.

- The **Dubai government** spent over AED 565bn across projects in the emirate over the past 20 years, according to a Ministry of Finance official. Of this, AED 280bn was in public development and infrastructure projects across all sectors.
- The size of the **UAE-China Joint Investment Cooperation Fund**, that focuses on direct equity investments in UAE and China, will be increased to greater than USD 10bn, according to a senior UAE official; he declined to disclose the actual amount.
- **Dubai** international **airport** reported a 6.9% yoy increase in **passengers** to 6.3mn in Feb, bringing the total this year to 13.7mn passengers (+6.5% yoy).

***Media Review***

**The IMF downgrades global growth in the Apr 2016 World Economic Outlook**
*http://www.economist.com/news/finance/21696883-fund-sees-danger-economic-doldrums-imf-downgrades-global-growth*
*Full text: http://www.imf.org/external/pubs/ft/weo/2016/01/pdf/text.pdf*

**Oil prices rally**
*https://next.ft.com/content/fffc6e34-00a5-11e6-ac98-3c15a1aa2e62*

**News of Europe's death are greatly exaggerated**
*http://www.bloomberg.com/news/articles/2016-04-13/eu-prophets-of-doom-wring-armageddon-out-of-crisis-prone-europe*

**Happiness, the new GDP**
*http://qz.com/663110/happiness-is-the-new-gdp/*

**The Renewables Rush**
*http://qz.com/662609/your-web-searches-are-probably-going-to-be-powered-by-wind/*
*http://www.economist.com/news/business/21696941-solar-power-reshaping-energy-production-developing-world-follow-sun*

**IIF's views on Egypt's devaluation**
*http://www.zawya.com/story/Egypts_widening_current_account_to_exert_currency_pressure-GN_10042016_110404/*