First Data debut, Albertsons delay show cooling IPO market

The largest initial public offering of the year fell short of expectations and the proposed second-largest was postponed in a sign that IPOs are struggling while investors worry about the health of the global markets.

Late Wednesday payment technology company First Data said its IPO priced at $2.56 billion. The offering was by far the largest US-listed IPO of 2015, but First Data had expected to raise hundreds of millions more. Meanwhile Albertsons Cos, the second-largest supermarket operator in the US, said it would delay its own offering because of the volatile state of the markets.

Albertsons announced the postponement just hours after competitor Wal-Mart surprised Wall Street with a weak outlook, causing its shares to tumble. Early this month Albertsons projected it would raise as much as $1.7 billion by going public.

Earlier this year companies were going public at the fastest pace in years, but that changed over the last few months as Wall Street worried more and more about the slowing economy in China, the second-largest economy in the world. While the US economy is improving, there are areas of concern affecting it as well: low inflation, falling commodity prices, and the question of when the Federal Reserve will raise interest rates and what will happen when it does.

Kathleen Smith from Renaissance Capital, a manger of exchange-traded funds focused on IPOs, said offerings are now at their slowest pace in four years. And when companies do go public, the returns for companies and their backers have been disappointing: since the start of September, IPOs have priced an average of 17 percent lower than the companies expected.

"Right now it looks like IPO investors are willing to come to the table, but only at discounted prices," Smith said. (AP)

First Data Corporation CEO Frank Bisignano (third from left), looks around the New York Stock Exchange after ringing the opening bell to celebrate First Data's Initial Public Offering on the NYSE on Oct 16, in New York City. The e-commerce technology firm processes about $1.9 trillion in transactions per year and will trade under the ticker symbol FDC. (AFP)

Saudi macroeconomic outlook

National Bank of Kuwait

Economy resilient but growth slowing

Despite the more than 50% decline in oil prices since June of last year and the knock-on effect that it has had on real output, Saudi Arabia's economy has, so far, proven quite resilient, growing by 4.0% y/y in 2Q15. In the oil sector, which grew by 4.8% y/y in 2Q15, production has surged to a record high, in excess of 10.0 million barrels per day (mb/d)on average so far in 2015. The kingdom is looking to protect its market share amid the price slump and to respond to burgeoning domestic demand for crude. Local demand has largely been spurred by increases in refinery capacity, as Saudi Arabia moves up the value chain with increased output of refined petroleum products, although power generation continues to utilize greater volumes of the kingdom's crude output. For the year as a whole, we forecast real oil GDP growth to accelerate to 3.3% from 0.7% posted in 2014, which is an upward revision from our previous forecast of 1.9%.Going into 2016, oil sector GDP growth is expected to slow, to 0.7% y/y.

Non-oil activity buoyant, supported by government spending, but key consumer metrics point to slowing economic growth

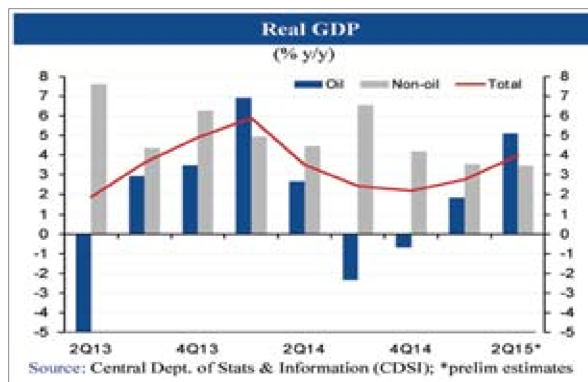
Non-oil activity remains buoyant as well, growing by 3.4% y/y in 2Q15 and supported by elevated government spending. However, there are signs that the economy is cooling: GDP growth in the last quarter slowed for the third successive quarter and key metrics of consumer and business activity such as point of sale (POS) and ATM transactions, private sector credit growth and business confidence, have all been slipping on a year-on-year basis over and above what might normally be expected during the slow summer/Eid season. The picture is further confirmed by the September reading of the Saudi Purchasing Managers' Index (PMI), which fell to a three-month low of 56.5 in the month. The PMI tracks business conditions among more than 400 non-oil private sector firms. The headline PMI fell to a three-month low in September as growth in new orders and output eased. The pace of job creation also seemed to be slowing. Having said that, both business activity and employment growth remained healthy-indeed payroll numbers have increased for 18 consecutive months. Taking this into consideration, annual non-oil growth is projected to slow from 5.3% in 2014 to 3.7% this year and next. Real GDP is forecast to expand by 3.5% and 2.4% in 2015 and 2016, respectively.

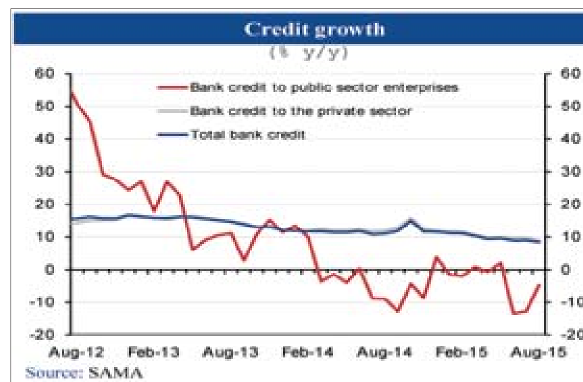
Looking at Saudi employment trends, the recent PMI survey findings have chimed with employment data provided by the central statistical office showing the number of Saudis taking up employment, for example, increasing by 56,000, or 1.1% to 4.9 million over the last year (1H14-1H15). Again, though, this is a noticeable slowdown from the 5.6% and 8.9% annual growth rates witnessed in 1H14 and 1H13, respectively. Also, this is slower than both the 4.5% y/y increase in the rate of expatriate employment growth recorded in 1H15 and the 4.0% y/y increase in the pace of overall economic growth over the same period; up until June of this year, Saudi job creation had been proceeding at a faster rate than overall GDP growth. Nevertheless, the proportion of Saudis employed in the private sector, the Saudization ratio, which is a key metric of the government's Nitaqat program, has steadily improved, from 9.9% in 2009 to 15.2% in 2013 (the last year for which data is available). Also, between 2010 and 2013, the number of Saudis entering the private sector each year increased three times faster than the number of Saudis entering the public sector-21.6% y/y vs. 7.4% y/y, respectively. Moreover, the Saudi unemployment rate has also fallen steadily and gradually since 2011, from 12.4 % to 11.6% as of mid-2015.

Key economic indicators

		2013	2014	2015f	2016f
Real GDP growth	% y/y	2.7	3.5	3.5	2.4
Oil	% y/y	-1.5	0.7	3.3	0.7
Non-oil	% y/y	5.7	5.3	3.7	3.7
Inflation	% y/y	3.5	2.7	2.3	2.6
Fiscal balance	% of GDP	6.5	-2.3	-22.4	-16.3
Public debt	% of GDP	2.7	1.6	6.0	12.2

Sources: Official sources and NBK estimates





Consumer price inflation in Saudi Arabia remains subdued at 2.1% as of August, largely reflecting depressed international food and commodity prices as well as a stronger dollar, to which the riyal is pegged. The dollar's rise against a basket of currencies over the last year has rendered the kingdom's non-dollar-denominated imports less costly, effectively raising the purchasing power of Saudi consumers. Nevertheless, there are tentative signs that inflation in the largest constituents of Saudi Arabia's cost of living index-housing, food and transport-is beginning to pick up. Housing and utility costs increased by 3.9% y/y in August whileprices in the food and transport categories increased by 2.1% y/y and 1.7% y/y, respectively. Inflation is expected to rise gradually over the next year or so, bringing the average annual rate to a still modest 2.3% in 2015 and 2.6% 2016, respectively.

The kingdom's fiscal account, having swunginto deficit in 2014 (-2.3% of GDP) for the first time since the financial crisis, looks likely to widen markedly this year, to an estimated -22.4% of GDP. This is due to a combination of burgeoning expenditures, including King Salman's $32 billion accession bonus announced last February, the escalating (and as yet, undisclosed) costs of the Yemen conflict, and lower oil revenues following further falls in oil prices this year. Recognizing the need forfiscal consolidation, the authorities have scaled back some of their capital spending on non-essential infrastructure, such as new stadia, for example.

They have also, according to the IMF, lowered the threshold for approval for new projects from SAR 300 million to SAR 100 million. On the revenue side, apart from the move up the value chain i.e. selling increasing volumes of refined petroleum products rather than solely crude oil, a tax on vacant land is planned along with, perhaps, energy subsidy cuts for commercial and industrial users. A new VAT law has also been mooted. Pending the rollout of these revenue-side reforms, we expect 2016's narrowing fiscal deficit, of-16.3% of GDP, to reflect some restraint on the current but especially capital spending side of the fiscal accounts.

For the time being, the burden of financing the deficit has fallen on the kingdom's large reserves, which have declined by a cumulative $83.5 billion over the last year, or -11.2%, to $662.2 billion as of August. While reserves still provide a very healthy 31 months of import cover, the quickening pace of reserve depletion in 2015, equating to $8.6billion per month, has unsettled markets and encouraged speculation that Saudi Arabia could be forced to abandon its peg to the dollar.

Falling reserves also prompted the authorities to announce, in August, their first local currency bond issuance program since 2007. SAR 20 billion ($ 5.3 billion) worth of bonds was sold to public institutions and local banks across three tranches of 5-year, (1.92% yield), 7-year (2.34% yield) and 10-year (2.65% yield) maturities.

Approximately SAR 100 billion ($27 billion) will be sold before year-end, over five monthly issuances of SAR 20 billion ($5.3 billion). This should help finance around 20% of the $146 billion fiscal deficit expected this year. The program is expected to continue at a similar pace into 2016, with the possibility of up to 40% of the projected deficit in 2016 being covered through debt issuance, according to unofficial sources. The remaining shortfall will be financed by drawing down the kingdom's still sizeable reserves and assets.

At 2016's projected spending rate, Saudi Arabia could, therefore, through a combination of debt issuance and reserve drawdown, weather a period of low oil prices (in the $50-55/bbl range) for at least two years before even half of the kingdom's foreign reserves are depleted. Moreover, the authorities would seem to have ample fiscal space with central government gross domestic debt a very low 1.6% of GDP ($11.6 billion) in 2014, having aggressively paid back their obligations during the years of high oil prices. Even if debt issuance proceeds as described, gross outstanding public debt would still only rise to $38.8 billion, or 6.0% of GDP this year, and to $83.3 billion, or 12.2% of GDPin 2016. These are still very low levelsof public debt by international standards.

Issuing debt of up to $45 billion over the course of a year or two, or even several year, would, nevertheless, have implications for the domestic banking system, in terms of potential changes in banks' asset allocation and appetite for lending, as well as liquidity. On the positive side, banks' net interest margins and revenues should improve as banks shift from lower yielding, short-term liquid assets to higher-yielding, longer-term government securities.

As of July 2015, short term, liquid assets such as cash, deposits with banks and the central bank, as well as treasury bills, accounted for only $106 billion, or 18% of the Saudi banking system's balance sheet. So there is plenty of scope to accommodate bond issuance by the government in the short term without constraining liquidity. Things would get trickier, however, were low oil prices to persist for several years and liquidity conditions tighten on a combination of un-abating debt issuance and slowing bank deposit growth.

Deposit growth, especially on the government side, has already begun slowing down, falling to 6.6% y/y as of end-August-its lowest level since late 2010-and the 3-month interbank rate, the Saudi Arabia Interbank Offered Rate (SAIBOR), has tacked sharply upwards during 3Q15, by 12 bps to 0.895%, to reflect both slowing deposit growth and the recent sovereign bond sale. Moreover, on the credit side, there is always the risk that the sovereign debt issuance program could begin to crowd out bank lending to the private sector, with obviously negative effects for non-oil economic growth.

In August, financial markets grew concerned over the prospect of Saudi Arabia recording large fiscal deficits, the increasing rate of its international reserve drawdown in 2015 and its decision to tap the bond markets. Attention focused on the sustainability of the kingdom's fixed exchange rate to the US dollar after China devalued its currency, the renminbi, and after another hydrocarbon producer, Kazakhstan, abandoned its peg to the US dollar altogether. With echoes of previous oil price crashes that put pressure on its fixed exchange rate, the Saudi riyal one-year dollar forward rate spiked, to 410 points on the 24 August, and the 5-year credit default swap spread (CDS) widened significantly, almost doubling to 110 bps on the same day.

The authorities are unlikely, however, to shift away from an exchange rate regime that has served them well in the past, anchoring the economy and inflation during previous bouts of oil volatility, economic downturns and externally-induced shocks. The dollar peg provides stability to trade and income flows, especially given the fact that oil, which is priced in dollars, continues to dominate the Saudi economy, accounting for more than 80% of the kingdom's export and fiscal revenues.

Meanwhile, the local equity market continues to be roiled by low oil prices and weaker sentiment. The Saudi Tadawul All-Share Index (TASI), despite edging up slightly over the last month, was still down by -10.4% year-to-date at 7,462 as of 6 October. Up until mid-August, TASI had largely been in positive territory, boosted by the opening of the stock market to foreign investors in June, but a couple of recent 'negative outlook' assessments by ratings agencies Fitch and S&P seemed to compound the market's anxieties, weighing heavily on the index.

Worth watching over the next few months will be the market's reaction to the announcement that the kingdom will ease restrictions on foreign ownership in retail and wholesale business, from the current maximum of up to 75% to 100%. While domestic firms would be expected to come under pressure with the added competition, overall, the effect should be positive for the economy, with foreign direct investment (FDI), private sector employment of Saudi nationals and, ultimately, Saudi consumers benefiting.

Requests for lease extensions by Shell and Statoil denied

US cancels drilling rights auctions in Arctic

WASHINGTON, Oct 17, (AFP): The United States has announced it is calling off two auctions for oil and gas drilling rights in the Arctic off Alaska and has denied requests for lease extensions by Shell and Statoil.

The move comes just weeks after President Barack Obama visited Alaska and Shell said its Burger J well in the Chukchi Sea, off the northwest coast of Alaska, did not warrant further exploration due to insufficient oil and gas being located and regulatory uncertainties.

"In light of Shell's announcement, the amount of acreage already under lease and current market conditions, it does not make sense to prepare for lease sales in the Arctic in the next year and a half," Interior Secretary Sally Jewell said in a statement Friday announcing the US decision.

The two canceled auctions — Arctic offshore lease sales under the 2012-2017 offshore oil and gas leasing program — were for the Chukchi and Beaufort seas, potentially scheduled for 2016 and the first half of 2017, respectively, the statement said.

It also said that the Bureau of Safety and Environmental Enforcement had denied requests for "lease suspensions" from Shell and Statoil that would have allowed them to keep their leases beyond their primary 10-year terms set to expire in 2017 for the Beaufort Sea and in 2020 for the Chukchi Sea.

"Among other things, the companies did not demonstrate a reasonable schedule of work for exploration and development under the leases," Jewell said.

Environmentalists saw Shell's announcement last month as a big win in their battle to protect local wildlife, and urged Obama to ban all energy companies from launching drilling projects in the region.

Greenpeace called the latest announcement "huge news for the Arctic," urging supporters to contact Obama to thank him for "taking action to protect the Arctic and our climate."

Obama, who visited Alaska in late August and early September to raise awareness of climate change, had angered environmentalists with his decision to allow the Anglo-Dutch oil giant to drill in the Chukchi sea.

He defended the move ahead of his trip to Alaska, saying he shared people's concerns about offshore drilling but that his administration, in the wake of the BP spill in the Gulf of Mexico, had worked to make sure that oil exploration was done at the "highest standards possible."

Friday's announcement comes amid a countdown to a much-anticipated United Nations climate conference in Paris in December.

Less Texas coal shut down under revised plan

FORT WORTH, Texas, Oct 17, (AP): The federal mandate to slash carbon emissions nationwide would shut down far fewer coal-fired plants in Texas than originally estimated, the state's biggest electric distribution grid operator said in a report released Friday.

The Electric Reliability Council of Texas said that 4,000 megawatts of coal-fired power, or one in four plants, would shut down, sharply down from last November when the operator predicted almost half of the state's coal fleet would need to be shuttered.

The expected closures in Texas represent about 6 percent of ERCOT's current installed capacity.

"We continue to have concerns about the potential impacts on planning and operation" of the power grid, ERCOT chief executive Trip Doggett said in the report.

The retirement of a portion of coal, a predictable power source, along with more electricity from intermittent solar and wind sources could affect reliability, the report said.

Last year's analysis was based on a proposed version of a rule which has since been revised with less stringent goals for Texas and extended deadlines for compliance nationwide.

Under the plan unveiled in August, Texas, the biggest emitter of greenhouse gases and industrial pollution in the nation, would need to cut emissions 32 percent from 2005 levels by 2030. That is down from a proposed 39 percent.

The EPA's broader plan calls for a 32 percent nationwide reduction by 2030.

It would cost the ERCOT system $1 per ton of carbon dioxide to meet the 2022 goals, which could increase retail prices by as much as 16 percent.

ERCOT said its price forecasts don't account for transmission upgrades, more expensive natural gas and costs associated with the retirement or scaled-back use of coal-fired plants.

The EPA rule, finalized in August, includes a carbon trading system as an option to meet the mandates.

US reviewing 'Clean Diesel' ads for fraudulent claims

WASHINGTON, Oct 17, (AP): "Aren't diesels dirty?" asks the grandmother in the passenger seat of the gleaming new VW Golf SportWagen.

"Diesel in Latin means 'dirty,'" chimes in another friend in the backseat.

To prove them wrong, the gray-haired driver gets out and holds her white scarf up to the tailpipe of the purring car.

"See how clean it is!" she exclaims, holding up the spotless shawl.

The Federal Trade Commission is now reviewing whether that 30-second spot and others like it touting Volkswagen's "Clean Diesel" engines amount to fraud, adding a new avenue for US regulators to punish the German automaker for its emissions-rigging deception.

FTC spokesman Justin Cole declined to comment Friday beyond confirming the commission's coordination with other federal agencies conducting a criminal probe into VW's use of a "defeat device" to hide emissions of smog-causing gases at up to 40 times the legal limit.

For years, the company had used well-funded national ad campaigns to boast its vehicles had the perfect balance of peppy acceleration, 40-mile-per-gallon gas mileage and low greenhouse-gas emissions. The pitch helped lure environmentally conscious customers who wanted to help save the planet without sacrificing driving performance.

While the FTC can't send anyone to jail, it can go to federal court to protect consumers and negotiate settlements with wide-ranging penalties. Those could potentially include paying cash restitution to the affected car owners and forcing VW to buy new national ads admitting the company lied to customers.

"This is exactly the type of case you would expect the FTC to look at," said Lee Peeler, a former FTC official who is president of the Better Business Bureau's Advertising Self-Regulatory Council. "When it comes to false advertising the agency actually has a pretty broad range of authority."

VW hastily took its "Clean Diesel" ads off the air following last month's admission it had cheated on emissions tests. The ads have also been removed from the company's websites and YouTube channel.

Volkswagen spokeswoman Jeannine Ginivan said airing the spots no longer made sense after the company withdrew its diesel cars from the market. VW is now coordinating with the Environmental Protection Agency on an expected recall of the nearly 500,000 sold in the US since the suspect software first appeared in its 2009 diesel models.