

# Weekly Economic Commentary – July 7, 2013

## Markets

China and Portugal woes were the catalyst for a stock sell off before a long 4<sup>th</sup> of July weekend in the US, but losses in mature markets were paired by an exuberant payroll figure, with Japan's Topix surging almost 5%. Emerging markets on the other hand are not recovering from the prospect of QE3 phasing out. **Regional** indices were mostly higher this week with Egypt's bourse posting its biggest one-day gain in a year, after former president Mursi was overthrown. The **dollar** emerged stronger after the payroll data while the **euro** and **pound** slid after dovish remarks from both Draghi and Carney. **Oil** rebounded, with Brent reaching a 3-month high, during the climax of the Egyptian showdown and **gold** made significant gains, as it is typical when tension rises, but then lost ground to end the week once again lower.

## Global Developments

### **Americas:**

- **US non-farm payrolls** rose 195k in Jun, and job gains in May and Apr were revised upwards by a combined 70k. On average, employers added 196k a month in Q2. The **unemployment rate remained unchanged** at 7.6% as new job seekers and the previously discouraged enter the labour force.
- **Initial jobless claims** fell by 5k last week to 343k from an upwardly revised 348k. The four-week moving average fell to 345.5k from 346.25k ADP's US **private sector employment** survey showed companies added 188k new jobs in Jun, up from a downwardly revised 134K in May.
- The Fed Board voted unanimously to **introduce Basel III**

**next January 1**, which imposes more stringent capital requirements on the banking system.

- The **ISM US manufacturing index** rose to 50.9 in June from 49 in May; new orders rose to 51.9 from 48.8 while factory employment fell into contraction at 48.7 from 50.1 for the first time in 4 years. **Markit manufacturing PMI** highlighted similar conditions falling to 51.9 in June from 52.3.
- The **ISM US non-manufacturing index** unexpectedly retrenched to 52.2 in June from 53.7 in May; Employment in the service sector improved, by 4.6 points to 54.7, but new orders slumped -5.2 points to 50.8.
- **US construction spending** rose by 0.5% mom in May to a seasonally adjusted annual rate of USD 874.9bn. Residential construction spending grew 1.2% mom and 22.7% yoy, while public construction spending increased 1.8% mom and was down -4.7% yoy.

## **Europe:**

- Two **Portuguese** ministers resigned marking the most serious setback to the EU-IMF sponsored stabilization program. Stocks dropped 7% on the day and yields on public debt climbed 100bp to 8% (retrenching later). **A restructuring of the sovereign debt with haircuts for private investors looms.**
- **German factory orders unexpectedly declined** for a second month in May – falling by 1.3% mom and 2.0% yoy (Apr: -2.2% mom). Domestic orders fell 2% mom while overseas orders dropped by 0.7%; among overseas orders, those from the euro area shrank 3.9%.
- **Composite Eurozone PMI**, scored a record since Mar 2012 in June, at 48.7 from May's 47.7, but firmly in contractionary territory.
- **Eurozone unemployment rose to a fresh record 12.1%** in May from 12% in Apr. Joblessness worsened in Spain, Italy and Ireland.

- **Retail sales in the Eurozone increased** by 1.0% mom in May, rebounding from declines of 0.2% in each of the two prior months, thanks to a rise in household spending on food, clothes and computers.
- **UK services PMI surged up** to 56.9 in June, the highest point since Mar 2011 up from 54.9 in May.

### **Asia and Pacific:**

- **China's official manufacturing** PMI slipped to 50.1 in June from 50.8 in May. The **non-manufacturing** PMI fell to 53.9 from 54.3.
- **HSBC/Markit's India manufacturing PMI** held steady in June inching to 50.3 in June from 50.1 in May. The new orders sub-index fell for the first time in 4 years.
- **Japan's Tankan** increased to 4 in Q2 from -8 in Jan-Mar – the first positive reading since 2011 – indicating that business sentiment had turned positive, with the survey also showing that manufacturers intended to boost capital spending.
- **Singapore PMI** expanded for the 4th straight month in June, rising to 51.7 from May's 51.1, with positive new orders and an increase in production.

**Bottom line:** The EU is never short on crisis hotspots. This week was Portugal where the government proved incapable of handling the political tangle of the country's restructuring. Meanwhile the improvement in the US is reaching a critical point with the strengthening of the labor market. **A pick up in the US is a badly needed balancing act to offset the bumpy road on which China is embarked and that is negatively affecting other emerging markets and the big commodity producers.**

### **Regional Developments**

- **Bahrain's** inflation-adjusted **GDP growth was 2.5%** qoq in Q1 (Q4: 0.2%), thanks to a pickup in the hydrocarbon

sector. In yoy terms, growth expanded to 4.2% in Q1 – the highest rate in a year – compared to Q4's 2.5%. Hydrocarbon output grew by 1.3% qoq and 8.0% yoy in Q1 (Q4: 0.4% qoq; -8.0% yoy) while the financial sector slowed, growing by 0.3% qoq compared to 1.4% in Q4.

- The **Egyptian army ousted the elected President Morsi** after massive protests swept the country. The chief of the Constitutional Court was sworn in as interim president until new elections while reports of Mohamed ElBaradei named as prime minister being contradicted now. Egyptian shares last week posted their largest daily percentage gain in more than a year.
- **Foreign currency reserves at the Central Bank of Iraq were USD 76bn**, with gold only 10% of total government reserves, as per the Acting Governor.
- **Jordan grew by 2.6% yoy** in Q1 (Q4: 2.2%) on higher construction, social services, trade and real estate output that offset declines in the agriculture and mining sectors. Construction sector was the best performer in Q1, up 7.8% yoy (Q4: -4.1%) with the social services sector at a close 7.7% growth given strong public spending.
- **Inflation in Kuwait** picked up to 3.0% in May compared to 2.8% the month before; the rate remained unchanged on a month-on-month basis.
- **Lebanon's economy contracted by 0.5-1.0% in H1** this year, according to a senior economist at the IIF; private consumption remains the sole driving factor amidst declining investments and political uncertainty.
- **Oman's new basic salary rule of a minimum wage of OMR 325** – which comes into effect this week – is likely to benefit 66% Omanis in the private sector. According to the Public Authority for Social Insurance, as of Apr, 176,213 Omanis were working in the private sector.
- A **Qatar National Bank** report estimates that the **current account surplus would moderate to 35% of GDP by 2013-end**, thanks to an increase in outflows due to increased

economic activity and a fall in exports given lower average oil prices.

- **Saudi Arabia's non-oil sector PMI improved** to 56.6 in June, but index components indicated a slowing of activity growth. 37% of panellists surveyed reported an increase in order book volumes; input costs increased while selling prices remained mostly unchanged.
- **Saudi Arabia exported 1.27bn barrels of oil in H1**, earning the country about SAR 514bn, while local consumption of oil was about 419mn barrels, or roughly 25% of the total production according to a local economist cited by Al-Riyadh Arabic daily.
- About SAR 5.0bn was approved in housing loans in **Saudi Arabia** and this is expected to finance construction of more than 12k housing units in major cities in the Kingdom.
- The **GCC-EU free trade agreement** is almost 99% agreed upon, with only the issue of fees on exports to be resolved, according to Bahrain's foreign minister.
- A Corporate Benchmarking Report, published by BCG, revealed that **GCC banks** increased the corporate divisions' revenues and net profits, both at their highest and crossing the pre-crisis levels seen about five years ago. In comparison, retail banking divisions have not been able to reach even 2008 levels.
- The **Global Innovation Index 2013** ranks Saudi Arabia on top in the MENA region in market sophistication (credit, investment, and trade and competition), Kuwait in knowledge and technology outputs (knowledge creation, knowledge impact and knowledge diffusion), and Qatar in creative outputs (creative intangibles, creative goods and services and online creativity). UAE meanwhile tops the ranking in the Middle East, also ranking on top in four pillars – institutions, human capital and research, infrastructure, and business sophistication.

- **UAE PMI slowed** to 54.1 in June, compared to a reading of 55.3 in May, given weaker increases in output and new orders. Wage inflation however increased at the fastest rate in the survey's 47-month history.
- **Mortgage credit in the UAE fell** to nearly AED 155.9bn at end-March from AED 159.8bn in 2012. In month-to-month terms, mortgage loans decreased by about AED 2.8bn from AED 158.1bn in Feb, though no explanations were given for this massive drop. Mortgage credit accounts for about 20.8% of the banks' claims on the private sector as of Q1 this year compared to 21.8% at the end of 2012.
- **Masdar's largest renewable energy venture**, a GBP 2.2bn wind farm the London Array, was inaugurated last week. Masdar has a 20% stake in the project that can produce up to 630 megawatts of electricity.
- **Bilateral trade between the UAE and UK increased** to GBP 10bn in 2012 and is expected to reach GBP 12.5bn by 2015, according to UAE's ambassador to the UK.
- The **Dubai Mercantile Exchange** reached a record trading volume of 6,978 average daily volumes (ADV) in June 2013 – up 38% yoy, 32% mom and a 9% increase over the previous record of 6,415 ADV in May 2012.
- S&P warned that the **Takaful sector** in the **UAE is "overpopulated"** hence "giving rise to overcapacity" and resulted in no Islamic insurer making a surplus for its fund last year.
- **Dubai Duty Free recorded a 13% yoy increase in sales** with turnover reaching AED 3.2bn in H1 2013. Perfumes and gold continued to be top-performing categories, with sales growth of 18% and 13% respectively.