

Weekly Economic Commentary – Apr 27, 2014

Markets

With a mixed earnings reports picture and limited data flow, the tensions in Ukraine took center stage. In the US and Europe stock markets fell substantially despite a mix of cheerful data and expectations of supportive monetary policies. Emerging markets took a dive but not all regional markets follow the trend. The dollar lost some ground, but essentially movements in FX were modest. Oil remained stable and gold was lifted by brewing confrontation over Ukraine.

Global Developments

US/Americas:

- The **US Conference Board leading indicators** index rose 0.8% in Mar after 0.5% in Feb, the seventh increase in eight months. The financial components, along with rising average weekly manufacturing hours, pushed the index higher. Building permits fell.
- US **existing-home sales** in Mar declined -0.2% mom to 4.59 million annualized units (-7.5% yoy). Revisions left the Feb mom growth unchanged at 4.6 million units. Sales are running at their slowest pace since Jun 2012 and are down -7.5% from Mar 2013. The months of supply increased from 5 to 5.2.
- US **new home sales** dropped by a more-than-expected 14.5% mom in Mar to a seasonally adjusted annual rate of 384,000 units (Feb: 449,000 units) touching an 8-month low. Sales were down 13.3% since Mar 2013 marking the biggest slump in 3 years.
- **Markit's flash US manufacturing PMI** held steady at 55.4 in Apr from 55.5 in Mar. Output rose to 58.2 from 57.5 –

the strongest rise in 3 years – and new orders and employment improved.

- US **durable goods orders** rose by a more than expected 2.4% mom in Mar. Orders for non-defence capital goods excluding aircraft rose 2.2% marking the largest rise since Nov.
- University of Michigan **consumer confidence index** shot up to 84.1 in Apr from 80 in Mar, the highest rate since July.
- US **initial jobless claims** rose by a more than expected 24k to 329k last week. The four-week moving average rose by a marginal 4,750 to 316,750, remaining at the lowest level since 2007.

Europe:

- The **composite flash Markit PMI in the eurozone** hit a near three-year high in Apr at 54.0 (vs 53.1 in Mar) with employment at the highest since Sep 2011. It was the tenth consecutive figure above the “50” level that separates expansion from contraction. In Germany the composite PMI scored 56.3 up from 54.3 in Mar while in France it fell to 50.5, down from 51.8.
- The **German Ifo business climate index** unexpectedly rebounded to 111.2 in Apr from 110.7 in Mar.
- **Russia**’s central bank hiked its benchmark **interest rate** by 50 bps to 7.5% to stem the financial fallout from its intervention in Ukraine.
- **Fitch** lifted the rating for **Spain** one notch to BBB+ and maintained the rating for Italy at BBB+ but upgraded the outlook from negative to stable on the ground that the recession is over.

Asia and Pacific:

- **China’s PMI** compiled by HSBC in Apr, inched up to 48.3 from 48 in Mar below the threshold of 50 that signals expansion.

- **Japan's trade deficit** expanded from JPY 800bn in Feb to Y1.45tn in Mar because growth of imports continue to be greater than that of exports, despite a sharp devaluation of the yen.

Bottom line: The macro picture has not changed much. Data from Europe reinforce the stabilization narrative. Analogously in the US after the cold spell data point upwards with the exception of the housing markets which is losing steam.

Regional Developments

- **Egypt's** oil Minister promises **payment** of close to USD 1bn **to foreign oil companies** within the next two months. This follows the payment of USD 1.5bn made last year and pledges of a further USD 3bn in monthly installments until 2017 as an incentive to encourage foreign oil companies to increase exploration and production.
- **Iran** petrol prices surged by almost 75% last week after state **cut subsidies** in a bold move; subsidised petrol, available to each motorist in limited amounts, rose from \$0.16 a litre to \$0.28 while the price for petrol sold outside that ration rose from \$0.28 to \$0.39.
- **Oil exports** from **Iraq** dropped to 2.4mn barrels per day (bpd) in Mar, down from the record 2.8mn bpd recorded in Feb, and the associated Mar revenue touched IQD 7.5bn.
- **Jordan exports** were up 6% yoy to JOD 927.7mn in Feb, thanks to the increase in fertilisers and crude phosphate, and trade deficit edged up slightly by 0.8% to touch JOD 1.57bn.
- **Kuwait's** central bank governor warned against rising spending and over-dependence on oil revenues, underscoring the need to reduce wasteful spending in the state budget and "rationalise" subsidy programmes. The IMF estimates spending to overtake revenues as early as 2017 under worst-case scenarios, while the government expects this to be the case by 2021.
- **World Bank** estimate **Lebanon's** GDP growth at 1.5% in 2014

if the political uncertainty and security conditions improved slightly, also highlighting the urgency for reforms to restore fiscal sustainability, resolve infrastructure bottlenecks, promote private sector development and create jobs.

- **Expatriates in Oman** increased by 0.1% mom to 1,535,861 in Mar, with the rise visible across the board in government (0.4% to 56,716), private and family (0.2% to 227,720) sectors. Males accounted for about 88% of the expatriate population while Indians topped the list with 597,769 workers.
- The results of the 2012/2013 **Agricultural Census in Oman** reveals that the area of agricultural holdings grew 9% from the 2004-05 survey to 355,010-acres, meeting close to 40% of the country's food requirement.
- Economic diversification in **Qatar** is likely to increase **share of non-hydrocarbon sector** to 57.2% of GDP in 2016 from 49.9% this year, according to the latest report from QNB. Lower hydrocarbon revenue and rising capital spending is expected to narrow fiscal surplus from 9.9% of GDP in 2013-14 to 4.7% in 2016-17.
- **Bilateral trade between Qatar and South Korea** surged to USD 26.8bn in 2012 from USD 21.5bn in 2010, thanks to the rising exports of liquefied natural gas while exports from South Korea are mostly electronics and automobiles.
- **Unemployment of Saudi women** picked up by 2% to 34% last year, as per official statistics, and in spite of the government's drive to encourage private companies to employ Saudi women and high percentage of university graduates. Meanwhile, unemployment among men stands at 6.2%.
- The number of **Saudi students in the US** reached 111,000 this year, up from 10,000 in 2007; the US Department of Commerce revealed that international students have contributed close to USD 22.7bn in 2011 to the US economy.

- **Food security** should be a key strategy in the GCC: a World Bank report cites that on average, the **GCC nations import 90% of food products**. Qatar topped the GCC in terms of their dependence on foreign imports at 97%, followed by Bahrain at 92%, Kuwait (91%), UAE and Oman at 89% each and Saudi Arabia at 80%.
- A senior member of the Saudi royal family, at a security conference, urged the **GCC** to “preserve our **regional security**” by “creat[ing] a real balance of forces with it, including in nuclear know-how, and to be ready for any possibility in relation to the Iranian nuclear file”.
- **S&P** found that around 75% of **international sukuk** issued in the past decade were originated by issuers from Middle Eastern countries, mainly issuers from the UAE, followed by Saudi Arabia and Qatar. However, new players like Indonesia and Turkey are emerging with the former having issued three sovereign sukuk of USD 1-1.5bn each and the latter having tapped the market for a total of USD 4bn.

UAE Focus

- **Dubai's** USD 750mn **sukuk issuance** with a 15-year maturity was more than 3 times oversubscribed and the proceeds are to be used for general budgetary purposes and refinancing according to the Department of Finance.
- Other good news from the **UAE markets**: DFM crossed the 5000-mark last week and NBAD became the first licensed market maker in the country.
- The launch of UAE's **Al Etihad credit bureau** is likely to be **delayed** as banks have not supplied the necessary credit information, it was revealed after a meeting of the bureau's Board of Directors. Only the National Bank of Fujairah was named as providing “accurate” and “reliable” credit information on its retail customers for the past 24 months.

- **DP World**, according to multiple banking sources, is in talks to triple the size of an existing USD 1bn loan, in addition to extending the length of the loan and reducing the interest rate.
- **Emirates NBD**, clarified its stance on the **Dubai World exposure** stating that it would reverse provisions only if further progress was visible on asset sales and debt repayment. The bank is Dubai World's biggest creditor with an exposure of more than AED 9bn against which provisions of 5% has been set aside.
- **Dubai Holding** Commercial Operations Group announced that it would be prepay on May 13 the entire outstanding principal of USD 319.3mn along with accrued interest, of the amortising USD 555mn facility originally maturing on Dec 31, 2015. The Group had recently repaid EUR 750mn bond in Jan 2014.
- **Dubai World Trade Centre** revealed that a record 2.2 million trade delegates and attendees visited exhibitions centre last year, having hosted close to 373 meetings, incentives, conferencing, and exhibitions (MICE) and business events.

Media Review

The international role of Oman and the pipeline from Iran

<http://www.bloomberg.com/news/2014-04-21/oman-fights-saudi-bid-for-gulf-hegemony-with-iran-pipeline-plan.html>

Macro forecasts by Goldman Sachs

<http://www.businessinsider.com/goldman-sachs-economic-market-forecasts-2014-4>

Internet neutrality is anacronistic

<http://www.ft.com/intl/cms/s/0/b83e5f2a-cbb5-11e3-a934-00144feabdc0.html>

Putin's sanguine view: Myth vs. reality

<http://qz.com/203264/putin-may-dismiss-sanctions-but-he-cant-ignore-stagflation/>

China's megalopolis

<http://qz.com/198337/chinas-new-megalopolis-would-be-bigger-th>

[an-uruguay-and-more-populous-than-germany/](#)

Blurred incentives: to make money in banking, become a federal bank regulator

<http://www.aei.org/outlook/economics/financial-services/banking/the-money-in-banking-comparing-salaries-of-bank-and-bank-regulatory-employees/>

The Arab Constitutional Transition

http://ecfr.eu/blog/entry/the_arab_constitutional_transition

MENA Economic Associates

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