

# Weekly Economic Commentary – May 4, 2014

## Markets

**Stock markets picked up steam** after a sluggish start of the week, after the Fed meeting with the Dow scoring another record, but despite the excellent non-farm payroll data, markets closed the week on a **downbeat mood**, attributed to **growing uncertainty** relating the **crisis in Ukraine**. **Regional markets were generally weak** with the exception of Saudi Arabia. The dollar weakened after the Fed announced that interest rates will remain close to zero for “a considerable time” after the end of QE, rebounded shortly after the payroll news and ended the week lower. Gold prices were weak despite the dovish Fed and oil prices also lost some ground.

## Global Developments

### **US/Americas:**

- **US GDP growth stalled** to a mere 0.1% qoq ann in Q1 2.6% in Q4 (against expectations of 1.2%). Consumption rose strongly by 3%, but exports tumbled, shaving 1% off the growth figure. Investment fell, including inventories (-0.6% contribution to growth) which had boosted growth in H2 2013. The justifications hinge on inclement weather but the extent of the slowdown is deeper than anybody had expected.
- The **US non-farm payroll added** 288,000 units in Apr as the unemployment rate dropped to 6.3%, smashing expectations and corroborating the acceleration of the US recovery. Upward revisions were recorded for the months of Feb and Mar. The **big decline in unemployment** was driven by more than 800,000 **people exiting the labour force**. The labour force participation rate

dropped to 62.8% from 63.2% in Mar.

- The **US Fed maintained its course of phasing out QE** by end 2014, as the FOMC sees “renewed strength in the economy” despite the winter lull. The monthly bond purchases are now USD 45bn, the balance sheet of the Fed reached USD 4.3 trillion. The FOMC pledged to consider a “wide range of information” to decide when to raise rates, which is interpreted as a dovish stance.
- The US Conference Board **consumer confidence fell** to 82.3 in Apr from an upwardly revised 83.9 in Mar. The expectations index rose to its highest since Aug at 84.9 a notch above 84.8 in Mar. The present situation index fell to 78.3 from 82.5.
- US **factory orders rose by less-than-expected** 1.1% mom in Mar following a downwardly revised gain of 1.5% mom in Feb. Orders excluding aircraft rose 0.6% after 0.7% in Feb. Orders for nondefense capital goods excluding aircraft rose 3.5% mom, the fastest pace since Jan ‘13.
- The **S&P Case-Shiller 20-city home price index rose by more-than-expected** 0.8% mom sa in Feb, consolidating its uptrend.
- **Markit’s US manufacturing PMI slipped marginally** to 55.4 in Apr from 55.5 in Mar. Separately, the **ISM manufacturing PMI** rose by a more-than-expected 1.2 points to 54.9 in Apr, highlighting a third month of accelerating growth.
- **Construction spending rebounded** in Mar by 0.2% mom to a seasonally adjusted annual rate of USD 942.5 million. This follows a weather-related dip of -0.2% in Feb.
- **US initial jobless claims unexpectedly rose** by 14,000 last week to a seasonally-adjusted 344,000. The four-week moving average rose 3,000 to 320,000.

## Europe:

- **Eurozone manufacturing PMI** rose to 53.4 in Apr from 53.0 in Mar, its 10th consecutive month in expansionary

territory. The region's recovery broadened with all countries except France reporting growth. Germany led, as usual while Spain and Italy improved.

- **UK GDP growth accelerated** to 0.8% qoq in Q1, up from 0.7% in Q4 suggesting that the country's recovery is strong and broad.
- **German retail sales fell** -0.7% mom sa in Mar following two months of positive growth. Sales for the first quarter grew 1.3% yoy.

### **Asia and Pacific:**

- **Japan industrial production increased** by a less-than-expected 0.3% mom sa in Mar but follows a -2.3% fall in Feb.
- **China's official manufacturing PMI** held steady at 50.4 in Apr from 50.3 in Mar. New orders ticked up 0.6 points to 51.2 driven by domestic orders.
- **India manufacturing PMI** was **unchanged** at 51.3 in Apr. New orders slowed to 52.5 from 52.7; export orders fell the most in two years.

**Bottom line: The data last week delivered one severe blow (GDP) and one boost (non-farm payroll) to the macro picture in the US. The balance however is positive,** because job creation is a more solid long term indicator of the GDP components that were weak in Q1 (inventories and exports), in part due to the harsh winter. **Elsewhere data signaled a broad based stabilization, even in Europe and China where the PMI above 50 points to expansion.** In the US stock market 75% of the 314 S&P 500 members that have reported earnings this season have posted profit above analysts' estimates and 52% beat sales projections, according to Bloomberg. Profits for companies included in the S&P 500 climbed 3.4% in Q1.

### **Regional Developments**

- Should reforms not be implemented, **Egypt's budget**

**deficit** could reach EGP 340-350bn or 14-14.5% of GDP, according to the Finance Minister; economic growth in this fiscal year was also earlier reduced to 2-2.5% from 3-3.5%.

- **Egypt's** interim president has revealed that the country **could revive privatisation of state-owned firms** – a policy stopped by ex-President Mursi – to boost investor confidence.
- Oil companies in **Egypt** continue to face **payment delays**: the head of the state-run oil company stated that **debt to oil firms increased** to USD 5.7bn at the end of Mar, in contrast to the previously mentioned USD 800mn outstanding and in spite of recent repayments.
- A new **USD 120mn investment fund** will be established by the European Bank for Reconstruction and Development and the private sector arm of the Islamic Development Bank **to support SMEs** across the southern and eastern Mediterranean region – including **Egypt, Jordan, Morocco and Tunisia**. The fund is expected to extend financing to SMEs using equity and quasi-equity structures.
- **Iran** has pent-up demand for up to 400 **planes**, according to the head of Iran's Civil Aviation Organisation, and the country will engage in a buying spree from Airbus and Boeing should sanctions be completely lifted.
- **IMF**, after completing its review of **Jordan's** performance under a three-year loan agreement, released USD 264.7mn in disbursements to the country bringing the **total disbursements** under the program to about USD 1.3bn.
- **Kuwait's regulator extended the year-end deadline for meeting its new corporate governance guidelines** to June 2015; some of the new rules include separating the positions of chairman and chief executive, prompt disclosure of information to the market, and establishing internal controls and risk management.
- **Energy subsidies**, at roughly 6% of GDP, is **draining Kuwait's budget** according to the Finance Minister; fuels and energy subsidies are expected to cost KWD 5.11bn

next fiscal year. The IMF estimates that the country could run a budget deficit as early as 2017, while official estimates place this later by 2021.

- **Kuwait's crude oil exports to Japan grew** 10.5% yoy to 9.85mn barrels, or 318k barrels per day in Mar; Kuwait is Japan's fourth-biggest oil provider and supplied 8.3% of the Asian nation's total crude import.
- The World Bank **downgraded economic growth in Lebanon** this year at 1.5%; this was stated at the launch of two new economic activity – coincident and leading – indicators. Separately, the Finance Minister expects growth at 1.5-2% this year, and also revealed that debt stood at USD 64.9bn, more than half of it in local currency.
- **Lebanon** successfully swapped USD 1.4bn in **Eurobonds** that mature in April and May – the first issue, six-year bonds, was valued at USD 600mn with 5.8% interest, while a 12-year offering was valued at USD 800mn with 6.7% interest. The Eurobonds were 35% oversubscribed while 23% were issued to foreign investors.
- **Oman real GDP** at market prices **grew** by 2.8% in 2013 to OMR 30.6 bn. The oil sector dropped 1%, while non-oil activities grew by 7.6% reaching OMR 17,2 bn.
- **Inflation in Oman** was **up** 0.76% yoy in Mar, with education costs up by a hefty 6.24% alongside food and beverages (+2.42%) and housing (+1.38%) prices. In mom terms, prices were down 0.06%, largely aided by declines in food prices from the month before.
- **Omanis** working in the **private sector increased** by 2.3% yoy to 186,112 at end-Mar 2014 thanks to the improvements in salary levels across the board.
- Assets in **Oman's Islamic sector** – with two full-fledged Islamic banks and six Islamic windows with a total branch network of 28 Islamic banking entities – touched OMR 808mn, while deposits were at OMR 170mn and financing at OMR 425mn.
- An agreement to build a bus **assembly plant in Oman** was

signed between the **Qatari** Transport Minister and Chairman of Mowasalat and the Omani Minister for Financial Affairs and Chairman of Oman Investment Fund. The assembly plant known as Karwa Automotors will cost USD 200mn and will take 3 years for completion.

- The Oman Power and Water Procurement Co (OPWP) estimates **gas consumption in the electricity and water desalination sector** will rise almost 50% from the current annual volume of 6.7bn m3 to 10bn m3 by 2020. Domestic gas production is projected at 120mn m3 a day by 2018, a 20% increase from 2013 levels, according to the Ministry of Oil and Gas.
- The **Qatar** Financial Market Authority (**QFMA**) has issued five **new regulations**, as part of the modernisation of its legal infrastructure and **supporting capital market development**; the regulations cover areas pertaining to regulating and licensing depositories, amendments to the corporate governance code, mergers and acquisitions and capital adequacy for financial services.
- **Outward remittances** by expats in **Saudi Arabia increased** by 22% yoy to SAR 14.3bn in Mar, according to a report in the *Al-Eqtisadiyah* daily, while total foreign remittances (including Saudi nationals) grew 21% to SAR 22.3bn.
- Alongside reports of foreigners being deported from **Saudi Arabia** comes reports that while Riyadh Chamber of Commerce and Industry made 6,000 jobs available for Saudis through its employment program, only 583 had applied for these jobs!

### **UAE Focus**

- **Dubai International** was the **busiest international airport** in Q1, **surpassing Heathrow**, as it welcomed 18.3mn passengers compared to the latter's 16mn. With summer and the partial closure of the runway, the airport is expected to see a dip in activity with a 26%

drop in scheduled flights.

- **Passenger traffic** at the **Dubai Airports** was **up** 7.5% to 6.29mn in Mar, taking number of passengers to a total of 18.36mn in Q1 (+11.4%).
- Following last week's news that the Al Etihad **credit bureau** had not received adequate and reliable credit information ahead of the deadline came the statement from the **UAE Banks Federation** that it would convene an exceptional meeting of its Consumer Committee in early May to discuss member banks' cooperation with the Credit Bureau.
- Dubai's **DED** is introducing a smart initiative to provide hassle free licensing to businesses known as the '**120 days hassle free license**'; this license allows the businessperson to start business immediately and complete the rest of the licensing requirements within the next 120 days.
- **Hotel occupancy in Dubai** stood at 88.4% during Mar, as per TRI Hospitality Consulting, while **average room rates increased** 5.6% yoy to USD 398.7. In Q1, the revenue per available room rose by 4.5%.
- **S&P** estimates reveal that there was **unlikely to be an oversupply of residential properties** in Dubai in the coming 12-18 months, given "population growth and an increasing number of visitors which are likely to absorb the increasing supply of new developments and support average selling prices".
- **Students from the UAE** contributed about USD 66.06mn to the **US economy** in 2012-13; as per figures issued by the US Embassy in Abu Dhabi, the number of UAE students studying in the US was 2,256 in 2012/2013.
- **Emaar Properties** is considering the possibility of **listing its shopping malls unit** on DFM, according to sources familiar with the matter; the company has hired Morgan Stanley to manage the AED 8-9bn listing.
- **DP World**, thanks to addition of **new capacity and a pick-up in global trade**, reported a 9.1% rise in consolidated



container volume handling 6.76mn twenty-foot equivalent units in Q1.

- An update on developments related to the **Expo 2020**, including **key milestones and timelines for delivery** were presented last week: the construction of the site is scheduled to begin early next year, and all major work is due to be completed by Oct 2019. It was disclosed that the Expo Village, which is to provide full-time housing for staff from participating countries, is scheduled to be finished by 2018 following which construction on pavilions of participating nations' would begin.

### **Media Review**

#### ***Job creation in MENA countries according to IMF***

[http://www.zawya.com/story/Job\\_creation\\_MENAs\\_tough\\_test-ZAWYA20140427054913/](http://www.zawya.com/story/Job_creation_MENAs_tough_test-ZAWYA20140427054913/)

#### ***2500 years of financial crises***

<http://video.ft.com/3503273760001/2-500-years-of-financial-crisis/Markets>

#### ***China and UAE sign pact on oil production***

<http://www.ft.com/intl/cms/s/0/cefe2f3e-cfb0-11e3-9b2b-00144feabdc0.html?>

#### ***Dr. Doom frets about China***

<http://www.project-syndicate.org/commentary/nouriel-roubini-says-that-if-the-the-global-order-blows-up-the-detonation-will-occur-in-asia>

#### ***A visual overview on world imports and export***

<http://www.businessinsider.com/world-export-and-import-maps-2014-4>

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