

Weekly Economic Commentary – May 11, 2014

Markets

Stock markets had another broadly positive week, with the Dow ending at a record high, although broader equity indices traded were more subdued and the Topix fell. Regional markets were generally following the wake of emerging markets with plus signs prevailing (the main exception was Egypt). The euro took a dive in reaction to the ECB announcement of a more dovish course of action boosting the dollar vis à vis all currency pairs. Oil prices were stable and **gold lost some ground despite the crisis in Ukraine, which did not trigger a flight to safety**.

Global Developments

US/Americas:

- **Fed President Yellen** emphasised that the US central bank is in **no hurry to raise interest rates** despite April's encouraging non-farm payrolls report.
- **The ISM US non-manufacturing index rose** more than expected to 55.2 in Apr from 53.1 in Mar. New orders rose 4.8 points to 58.2, production increased 7.5 points to 60.9 but employment dipped 2.3 points to 51.3.
- **US wholesale inventories rose** by a more-than-expected 1.1% mom in Mar following an upwardly revised gain of 0.7% mom in Feb.
- **US nonfarm business productivity fell** -1.7% qoq ann sa in Q1, disappointing expectations. However Q4 quarter was revised up 0.5% to +2.3%.
- **US initial unemployment claims** in the US **fell** by 26K to 319K. The four-week moving average rose 4,500 to 324,750 due to three past consecutive weekly increases.

Continuing claims fell 76K to 2.69 million, confirming the gradual improvement in the labour market.

Europe:

- **The ECB President Draghi** announced that **monetary policy will be loosened** in June to prevent a deflationary tail spin in the eurozone.
- Markit's **eurozone composite PMI rose** to 54 in Apr from 53.1 in Mar; new orders and employment improved. The region's **services PMI** rose to 53.1 in Apr from 52.2 in Mar with Germany, France, Italy, Spain and Ireland together reporting growth for the first time in 3 years.
- **German industrial production had a hiccup** in Mar falling -0.5% mom (+3.0% yoy) after a revised 0.6% (+4.7% yoy) in Feb. Also in France production declined -0.7% mom (-0.8% yoy) in Mar following a 0.1% mom increase (-0.5% yoy) in Feb.
- **German factory orders unexpectedly fell** by -2.8% mom sa in Mar after rising 0.9% in Feb. Export orders dropped -4.6% while domestic orders shrank -0.6%.
- **Eurozone retail sales growth** accelerated in Mar to 0.3% mom vs 0.1% in Feb.

Asia and Pacific:

- **HSBC/Markit's China manufacturing PMI inched up** to 48.1 in Apr from 48 in Mar. The **non-manufacturing PMI** slipped to 51.4 in Apr from 51.9 in Mar.
- **Chinese exports rose** 0.9% yoy in Apr after dipping -6.6% yoy in Mar. Imports rose 0.8% yoy after falling -11.5% yoy in Mar.
- **China consumer inflation slowed** more-than-expected to 1.8% yoy (-0.3% mom) in Apr from 2.4% yoy in Mar.
- **Indonesia's GDP** rose 5.2% yoy in Q1, down from 5.7% in Q4. Exports were weak as in many other economies across the region. Higher interest rate are exerting downward pressure and will continue to do so.

Bottom line: In a week void of major data releases the speech of the two top central bankers took center stage. The dovish tone at the monthly press conference by Draghi was the catalyst of attention. The exact nature of the measures has not been detailed, but given that interest rates are already close to zero, they will likely involve unconventional purchases of fixed income securities, primarily government bonds. Yellen simply reiterated the stance that the Fed has firmly adopted and followed for months.

Regional Developments

- **Egypt's** government **approved a temporary 5% tax** on wealthy individuals (those earning over EGP 1mn a year) to fund social programs; the tax rise still needs to be passed by the Interim President before it can be implemented and will only be applied for a temporary period.
- **Egypt** needs to raise USD 2.5bn to **cover gas imports** – to secure supplies for power stations and cover other costs – till the end of the year, according to the head of Egyptian Natural Gas Holding Company; he did not provide any further details as to how the money would be raised.
- **Fuel provided to Egypt by the Gulf States** has reached a total value of USD 6bn, stated the head of its national oil company. The Gulf countries are rotating management of the support with Q1 being taken care of UAE while Saudi Arabia took over in Q2 and aid in the form of refined oil products will continue until at least Sep; the aid helps to reduce the burden on forex reserves and reduces cost of subsidies.
- **Iraq's oil exports increased** to 2.512mn barrels per day (bpd) in Apr from Mar's 2.139mn bpd, and the month also witnessed the highest level of exports from the south since 2003; oil revenues amounted to USD 7.576bn in Apr.
- **Youth unemployment in Jordan**, at 24.1% is almost **twice the global average**, though lower than the regional

average of 28.3%, according to a recent ILO survey. The survey also found that percentage of unemployed youth who had been looking for work for at least six months was 72.4% and that only 11.2% of the young female population was working compared to 47.2% of young men.

- **Oman's** Minister for Financial Affairs **ruled out the possibility of a conventional bond issue** this year while also **dismissing the case for privatisation of state-owned companies** in 2014. However, the Sultanate **may cut petrol subsidies** given the rising pressure on public finances, but he remained cautious also stating that: "these subsidies are social objectives, so we have to strike a balance between the monetary side of it and the social impact".
- **Total lending** by **Oman's** listed banks grew 10% yoy to OMR 13.6bn in Q1, with both corporate as well as retail loans registering upswings while deposits with banks rose 13.3% to OMR 15.46bn.
- Total **value of traded properties in Oman** increased 94% yoy to OMR 687.3mn in Q1 2014, supported by greater investor confidence and rise in mortgage activity. Mortgage contracts more than doubled to OMR 396.8mn while their number was up 36.5% to 4,890 in Q1.
- **Qatar's GDP growth** is estimated at 5.9% in 2014, **down** from 2013's 6.5%, as per the **IMF's** recent estimates, while inflation is seen to be benign at 3% to 4%. To improve public investment efficiency, the IMF also urged strengthening of an integrated public investment management process – especially to reduce costs and contain the risk of significant cost escalation associated with public infrastructure projects.
- **Qatar Airways**, with the latest buy-in by its sovereign wealth fund, became a **fully government-owned entity** in July last year, according to its CEO; no comments were provided on the reason for change in ownership nor the amount QIA paid for the stakes.
- **Qatar banks** are the **most efficient amongst its GCC**

peers, reported **S&P**, “mainly owing to QNB with its strongest efficiency ratio among the banks we rate in the GCC”. The report further adds that “high interest margins, although contracting; briskly increasing business volumes mainly on the back of the government’s investments; and banks’ generally low cost bases are the main factors fuelling [Qatar’s] performance”.

- The **PMI for Saudi Arabia** touched 58.5 in Apr, rising from March’s five-month low of 57.0. Components-wise, activity rose at a slightly sharper rate than in March, while the increase in new orders was the quickest since the start of this year.
- **Consumer confidence index in Saudi Arabia reached a high** 102 in Q1, a one-point increase from Q4 2013 and a six-point increase from a year ago, according to Nielsen’s survey.
- **Saudi Arabia’s Public Pension Agency**, the second-largest pension fund in the country, plans to **boost its investments in real estate** but has no immediate plans to exit any of its holdings in Saudi companies, as per its governor. The fund currently pays an average of SAR 4bn a month to about 1.1 million retirees and their dependants while its local stock market holdings in 2012 reached SAR 41.8bn.
- **Saudi Arabia** has the **third largest water consumption rate in the world** with average use reaching 280 liters per person per day. As population growth surpasses 2.5% and demand grows by 8.8% annually, the government is investing extensively in **water desalination** plants, leading the country to record the highest annual growth rate in investments (of 6%) globally.
- In a bid to encourage **Saudi** citizens to continue in their jobs, the Human Resources Development Fund or **Hadaf** launched a **financial incentives scheme**, of up to SAR 24k per person, which will be given in three to four installments during a maximum period of two years.
- The **UN urged increased aid flow within Syria** to slow the

movement of **refugees** to neighbouring countries. It is estimated that aside from some 3 million refugees abroad, a further 6.5 million were displaced inside Syria and 3 million had minimal access to essential services.

- The **GCC Customs Union**, largely delayed due to the disagreement on sharing of customs revenues, requires compromises to become fully operational by the beginning of 2015 as planned, according to Kuwait's Finance Minister.

UAE Focus

- **Non-oil private sector in the UAE recorded a new high**, with the HSBC **PMI** reading at 58.3 in Apr, up from Mar's 57.7, thanks to sharp increases in total new orders and export orders.
- **UAE is expected to grow at 4.4%** this year, according to **IMF's** latest Regional Economic Outlook for the MENA region, while the GCC is likely to average 4% growth. Growth in the GCC will be driven by construction and retail trade, and is likely to be supported by high levels of public infrastructure spending and strong private sector credit.
- The Institute of International Finance (**IIF**) forecasts **Dubai to grow at 5.6% this year**, driven by tourism, transportation, and trade, alongside estimates of GCC growth at 4.2%. Separately, Dubai Statistics Centre expects growth to touch 5% in both 2013 and 2014.
- **Debt relief**, soon? **Dubai** would not have any issues in repaying all its debt maturing in 2015, and more state-linked firms were likely to repay obligations ahead of schedule is likely to comfort, stated Sheikh Ahmad, who is also the head of Dubai's supreme fiscal committee.
- **UAE** Central Bank revealed that aggregate money supply **M1 increased by 1.9% mom** to AED 396.6bn in Feb, alongside a 0.6% rise each in total deposits and loans.

- **UAE consumer confidence** touched 114 in Q1 this year – the fourth highest globally – up 4 points from the previous quarter and compares to its lowest score of 89 in H1 2009, according to the latest Nielsen report.
- **Dubai's aviation sector** will support 50k new jobs, contribute an additional USD 8bn to GDP and register aviation revenue at AED 110bn by 2020, according to the Dubai Airports CEO. Currently, the aviation sector supports 250k jobs or 19% of total employment in Dubai and accounts for 28% of the emirate's GDP.
- Saudi Arabia, India and UK were the **top visitors to Dubai** last year, with 1.4mn, 0.9mn and 0.75mn visits respectively, according to a new study on the “tourism, hospitality and leisure” sector launched by Deloitte and STR Global.

Media Review

Economic growth to strengthen in the MENA region, but large public deficits and weak confidence pose risks: IMF

<http://www.imf.org/external/pubs/ft/reo/2014/mcd/eng/pdf/menaca0514.pdf>

Globalization and Trade Flows in the world

<http://www.bloombergvew.com/articles/2014-05-02/globalization-still-favors-the-rich>

Global value chains: international production networks have, since 2000, spread across regional blocs faster than they have spread within them

<http://www.voxeu.org/article/global-value-chains-and-factory-world>

China is cheapening the Yuan for scarier reasons than usual

<http://qz.com/207926/china-is-cheapening-the-yuan-for-scarier-reasons-than-usual/>

The outlook for the dollar

<http://www.bloomberg.com/news/2014-05-09/decoding-dollar-turns-into-wall-street-s-parlor-game-currencies.html>

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