

# Weekly Economic Commentary – May 25, 2014

## Markets

Stock markets in the US ended the week at record highs and all other main indices followed in the wake, underpinned by expectations of continued monetary policy accommodation by the Fed and the ECB as well as positive news from China. A notable exception was regional markets led by a 5% drop in Dubai. The dollar sank to its lowest in about three months against the yen and the Euro, due to a drop in US Treasury yields after uncertainty about US economic growth prospects resurfaced. WTI and Brent prices climbed on speculation that renewed violence in Libya will disrupt supplies. Despite tensions in Ukraine, a revamp of civil war in Libya and a coup in Thailand **gold did not shine on the market**, actually falling slightly.

## Global Developments

### US/Americas:

- **Markit's US flash manufacturing PMI rose** 56.2 in May from 55.4 in Apr. Output growth accelerated while growth in new orders and employment slowed.
- US **existing home sales improved** in Apr, increasing 1.3% mom to 4.65 million annualized units vs 4.59 million in Mar. Sales are still down 6.8% yoy.
- **US new home sales increased** by a more-than-expected 6.4% mom to an annual rate of 433,000 units following two months of declines, but remain at their sluggish Q1 average.
- The US Conference Board's index of **leading indicators grew** 0.4% in Apr, after 1% in Mar, the eighth increase in nine months.
- US **initial unemployment claims** have recovered to pre-

recession pace **increasing** 326K. The four-week moving average was 322,500, about 1k less than the previous week. Continuing claims fell to 2.653 million, the lowest since December 2007.

## Europe:

- **Eurozone flash composite PMI slipped** to 53.9 in May, falling from a near three-year high of 54 in Apr. The gauge for **Germany** held steady at 56.1 while **France** slipped back into contraction following two months. The **services PMI** for the region unexpectedly rose to 53.5 from 53.1 while the gauge for the **manufacturing sector** dragged, slipping more than expected to 52.5 from 53.4.
- **German Ifo business climate index fell** more than expected to 110.4 in May from 111.2 in Apr. The current conditions index slipped unexpectedly to 114.8 from 115.3 and the gauge for expectations fell to a 7-month low of 106.2.
- **S&P upgraded Spain's rating** to BBB with a stable outlook, while increasing its GDP growth forecast for the next three years.
- **Italy industrial orders grew** 1.3% mom in Mar vs -3.2% in Feb, hardly an indication of turnaround.
- **UK inflation remained subdued** in April rising 0.4% mom and 1.8% yoy from a revised 1.6% a month earlier.
- **UK retail sales** in Apr **gained** 1.3% mom and 6.9% yoy thanks to the Easter holiday, after rising 0.1% mom and 4.2% yoy in Mar.
- The **Central Bank of Turkey** cut the one-week repo rate by 50bps to 9.50% in a move that baffled markets given the inflationary pressures.

## Asia and Pacific:

- **HSBC/Markit's China flash manufacturing PMI increased** to 49.7 in May from 48.1 in Apr. New orders, output and new export orders moved into contractionary territory.

- **Singapore Q1 GDP** growth was **upwardly revised** to 2.3 qoq ann (4.9% yoy) which follows a 6.9% qoq (4.9% yoy) expansion in Q4. Manufacturing expanded 11.9% qoq, services grew 0.4% and construction rose 0.6%.

**Bottom line: The light data flow last week was eclipsed by the agreement between Russia and China on the supply of gas.** While the implications and the details are being fully digested, the deal appears relatively small in magnitude. In 2013 Russia exported around 200bn cubic meters of gas primarily to Europe. The deal envisages sales of 38bn cubic meters annually. So while for Russia it is not a game changer, for China it represents a crucial source of cheap energy, capable of boosting industrial capacity with less severe environmental repercussions.

### **Regional Developments**

- In **Egypt**, ahead of the elections, Sisi released a blueprint of **"A Map of The Future"**, wherein the government plans building into the desert – 48 new cities, eight airports, fish farms and renewable energy projects generating 10k MW of power – to enable the country's population to live on 100% of the land as opposed to the current 6% land occupancy.
- **S&P affirmed Egypt's ratings at "B-/B"**, while also retaining the "stable" outlook in spite of assessing government finances as weak and the government's stock of debt as high and expensive. The stable rating is based on the inflow of funds from official donors to manage the country's short-term fiscal and external financing needs.
- **Gas production in Egypt will be increased** by 400-500 million cubic feet per day by the end of the year, according to the nation's Oil Minister. Additionally, and in a bid to meet rising energy demand, Egypt also intends to start importing liquefied natural gas by Sep. Forecasts from the petroleum ministry place gas

production at 5.4 billion cubic feet (bcf) per day and consumption 5.57 bcf/day in the next fiscal year.

- A **contract between Iran and Iraq** stipulates that Iran is to export 25 million cubic meters (mcm) of gas per day to Iraq; Iran's deputy oil minister also stated that "after constructing the gas transfer pipeline to Iraq, the country will import up to 7 mcm of gas per day from Iran", eventually leading **Iraq to become Iran's top gas importer by importing 40 mcm of gas per day** to Baghdad.
- **Kuwait's ruling emir is expected to visit Iran by the end of this month**, and "will usher in a new page of Kuwait-Iran relations" as per the latter's Foreign Ministry, but remains unconfirmed by Kuwait.
- **Kuwait's credit growth** posted its **strongest gain** in Mar, rising 8.0% yoy, with the monthly gain nearly three times the 12-month average. **Money supply** (M2) growth accelerated to 8.8% yoy – largest gain in three years – with private deposits up KWD 1bn.
- The **IIF** estimates real **GDP growth in Oman to slow** to 4.5% this year from 4.8% in 2013, while posting strong non-oil growth, reflecting strong growth in infrastructure spending and robust private sector activity. With public debt at less than 5% of GDP, the IIF finds it unlikely that deficits would present funding problems for Oman.
- **Property transactions in Oman grew** 94% yoy to OMR 687.3mn in Q1 2014 while fees collected on all property transactions was up 78.6% to OMR 10mn.
- **Qatar's** Ooredoo signed a USD 1bn five-year revolving credit facility, partly to repay a USD 750mn loan due in May 2015, while the balance will be allocated for general business purposes.
- **Domestic tourism in Saudi Arabia grew** 25.2% yoy to 23.8mn in 2013, and helped drive up local tourist spending to SAR 28bn, as per data revealed by the Tourism Information and Research Center (MAS). A recently released report by MAS estimated that tourism

contributed SAR 75bn to GDP, accounting for nearly 3.0% of the total.

- The IMF's latest **Article IV report on Saudi Arabia forecasts growth** above 4% in both 2014 and 2015, led by government spending and robust private sector activity. The report also applauded the government's reform process including further developing infrastructure, improving the business environment, increasing the quality of education and skills, and employing more Saudi nationals in the private sector.
- **Saudi Arabia's food imports dipped** by 11.7% yoy in Apr to 1.06mn tonnes; meanwhile, foodstuffs entering Saudi ports increased 8% yoy to 3.33 million tons in Q1.
- **Saudi Arabia** approved a **five-year plan to develop the education sector**, and includes building 1,500 nurseries, providing training for about 25k teachers and establishing educational centers and other related projects; the plan is worth more than SAR 80bn and is in addition to the amount allocated annually to the education ministry.
- **GCC-Stats inflation report** for Mar revealed that **Kuwait** recorded the **highest rate of inflation** (2.96%) across the GCC, while Oman posted the lowest rate with a 0.73% increase in the CPI. Category-wise, education sector showed the highest rise in prices – increasing by 6.24% in Oman, 5.0% in Bahrain, 4.39% in the UAE, 4.06% in Kuwait and 3.7% in Saudi Arabia.
- Global **Islamic banking assets** with commercial banks are likely to touch USD 3.4 trillion by 2018, supported by growing economic activity in core Islamic finance markets, according to Ernst & Young.

## **UAE Focus**

- **UAE's logistics market** is expected to grow to USD 27bn by 2015 from 2013's USD 23.4bn, boosted by a surge in import and export trade volumes and upward trend of

local manufacturing, according to Frost & Sullivan.

- Though **Dubai's property prices** are **near 2008 peak levels**, **S&P** believes that the market is less likely to see any major price correction in the short term. The ratings also finds that exposure of UAE banks to the sector has also been moderate, given recent regulatory changes including recent caps on mortgage lending.
- **UAE** Cabinet gave its official approval to the bylaws of the **Etihad Credit Bureau**, paving the way for its launch. The launch of the credit bureau will help the market become more transparent, enable consolidation of indebtedness and restrict borrowers from obtaining loans, credit cards and mortgages from multiple lenders; officials estimate per person indebtedness in the UAE at USD 95k.
- **Dubai** government announced its support and funding a non-profit entity, called **World Free Zones Organisation** (World FZO) that will lobby governments on behalf of special economic zones worldwide. World FZO will be responsible for implementing industry standardisation and best practices and protecting the interests of economic zones.
- **UAE** has the **most efficient government**, the strongest decision-making and the lightest bureaucracy in the world, according to **IMD's** World Competitiveness Yearbook 2014. Overall, the UAE was ranked 8th globally.

### **Media Review**

#### ***The Russia-China gas deal: read the fine print***

<http://blogs.barrons.com/emergingmarketsdaily/2014/05/22/gazprom-analysts-question-impact-of-china-deal/>

#### ***The UK Housing market is bubbling again***

<https://www.economy.com/dismal/outlook/country.aspx?geo=IGBR>

#### ***Indian stock market is the ten largest in the world***

<http://on.ft.com/1nt0F77>

*The state of the nuclear talk with Iran*

[http://viewswire.eiu.com/index.asp?layout=RKArticleVW3&article\\_id=111832395&country\\_id=1120000312](http://viewswire.eiu.com/index.asp?layout=RKArticleVW3&article_id=111832395&country_id=1120000312)

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