

Weekly Economic Commentary – Jun 8, 2014

Markets

Markets celebrated the moves by the ECB and a global economic outlook depicted in a more vibrant rosy shade. The S&P 500 hit several new tops recording its best performance in almost two months and scoring three consecutive positive weeks for the first time since Nov. European shares, the Dow Jones and the NASDAQ were also up. Generally, stock markets have been much less volatile than in 2013. Emerging markets indices touched a one-year high after the ECB announced its unorthodox measures, but regional markets did not benefit much; actually the Qatar index sank due to fears that the World Cup could be reassigned. The Euro lost some ground to the dollar in the aftermath of Draghi's conference but it ended the week on a positive note. Gold was marginally up, while oil prices remain unperturbed by the macro data impact.

Global Developments

US/Americas:

- **US non-farm payrolls increased** by 217,000 units in May a level rarely seen since the start of the crisis, which corroborates the 282,000 units in Apr, pushed by a rebound after the winter lull. The number of Americans with a job has regained pre-crisis peak. Unemployment stood at 6.3%, abstracting from those who dropped out of the labour force.
- **US Initial jobless claims** were 312K and the four-week moving average stood at 310K. Past claims were revised slightly higher at 304K
- **Markit's US manufacturing PMI increased** more than expected to 56.4 in May from 55.4 in Apr. New export

orders surged at the fastest pace in a year. Conversely, The **ISM manufacturing PMI** unexpectedly **dropped** to 53.2 from 54.9. The **ISM non-manufacturing PMI**, a gauge for the service sector, **surged** 1.1 points to 56.3 – the fastest pace in 9 months.

- **US construction spending grew** by a less-than-expected 0.2% mom in Apr to a five-year high of USD 953 bn, annualized, following an upwardly revised 0.6% mom rise in Mar. Public construction spending rose 0.8% mom while private residential spending was flat.
- **US factory orders increased** 0.7% mom in Apr following an upwardly revised 1.5% mom rise in Mar. Orders for non-defence capital goods excluding aircraft fell 1.2% mom.
- The **Banco de Mexico reduced** its **key rate** unexpectedly by 50 bp to 3% to revive growth as its recovery from a weak 2013 falters.

Europe:

- **Draghi blew a new bazooka: ECB lowered its main rate** to 0.15% committing to keep rates at this level for a long time. More crucially the ECB decided a series of measures to stimulate credit to enterprises and counter deflationary pressures: 1) banks will pay 0.1% to keep excess liquidity with the ECB; b) banks will be able to lend initially up to EUR 400 billion to firms by tapping the ECB refinancing window; c) the ECB sovereign bond purchases will not be sterilized; d) the ECB will study the legal aspects of buying securities collateralized by loans and mortgages (ABS).
- **Markit's eurozone composite PMI declined** to 53.5 in May from 54 in Apr but remains in expansionary territory for the eleventh straight month. The **manufacturing** sector dragged dropping to 52.2 from 53.4 in Apr while the **services** PMI rose to 53.2 from 53.1 in Apr.
- **German industrial production grew** 0.2% mom in Apr (2.3% yoy), following -0.6% mom decrease in Mar (2.7% yoy),

confirming the solid condition of the largest EU economy. Also **German factory orders rebounded** in Apr rising by a more-than-expected 3.1% mom after dipping -2.8% mom in Mar. **Export orders** rose 5.5% while domestic orders were stagnant.

- **Eurozone unemployment declined** to 11.7% in Apr from 11.8% a month earlier, ending 18 months of deterioration.
- Standard & Poor's **increased Ireland's rating** to "A" for the first time since 2011. Italy's rating was reaffirmed at BBB- with negative outlook.
- **Lithuania** will join the **euro** area on Jan 1 2015.

Asia and Pacific:

- **HSBC/Markit's China manufacturing PMI increased** by a less than expected 1.3 points to 49.4 in May, reaching a four-month high. However, the gauge for the service sector lagged, dropping to 50.7 in May from 51.4 in Apr.
- **HSBC/Markit's India manufacturing PMI increased** less-than-expected to 51.4 in May from 51.3 in Apr. New orders rose 1 point to 53.2 and the employment index improved.

Bottom line: The strong actions by the ECB and the upbeat data on the US labor market have moved the economic barometer towards sunny skies. If one adds that the flow of bad news from China and Japan has dried up for now, the upbeat mood finds further justification. Skeptics point to the effects of unprecedented monetary measures which cannot be sustained indefinitely. In fact **bears are increasingly switching to fixed income**: bond fund flows have outpaced equities for the third consecutive week, with emerging market debt funds recording their biggest inflow since Jan.

Regional Developments

- **Bahrain's Mumtalakat returned to profit in 2013 after**

five consecutive years of losses, thanks to “significantly lower impairment losses and improved operating performance across portfolio companies, in particular Gulf Air”. Assets under management were BHD 2.71bn at end-2013.

- **Budget deficit in Bahrain** nearly **doubled** to BHD 410mn, or 3.3% of GDP, in 2013 and compares to 2.0% of GDP or BHD 226.6mn in 2012. The deficit, however, was just a fraction of the originally estimated BHD 1.1bn, thanks to spending (some 14% below budget plan) at its slowest rate since 2009.
- **Business activity in Egypt shrinks**: HSBC Egypt **PMI** for the non-oil private sector came in at 48.7 points in May, down from 49.5 in April. New orders edged further into contraction territory at 48.5 points (Apr: 49.3) while output fell to 47.5 points (Apr: 49.8).
- Officials from **Egypt**’s Finance Ministry revealed that an **international bond issue** of between USD 750mn-1bn, mainly aimed at Gulf Arab investors, was being studied for “whenever the time and need is appropriate to cover the budget gap”. Separately, Egypt’s Tourism Minister stated that the nation hopes to raise USD 1bn through an **investment fund to support its tourism sector**, with plans to raise USD 250mn next quarter and the balance during the rest of the year.
- **Iraq oil exports** were **up** 8% yoy in May with an average of 2.582mn bpd (Apr: 2.39mn bpd), but is still below the target of 3.4mn bpd estimated for 2014. Meanwhile, a newly inaugurated floating terminal is expected to expand shipping capacity from the southern ports by 800k bpd.
- **US humanitarian aid** for refugee relief programmes in **Jordan** since the Syrian crisis began breached USD 300mn; Jordan will receive USD 35mn and **Lebanon** USD 51 mn of the USD 290mn aid pledged by the US State Department last week in additional humanitarian assistance to help those affected by the war in Syria.

- The President of the **World Bank** revealed that **Jordan** is being considered for a **USD 1bn loan**, with USD 800mn to support infrastructure projects and USD 200mn to the state treasury. Negotiations over the loan have not yet begun.
- During the **visit of Kuwait's Emir to Iran**, the countries signed 6 agreements to expand cooperation in the fields of air transport, customs, sports, tourism, environment protection and security.
- **Lebanon's draft budget** revealed a projected deficit of 10.7% of GDP (or USD 5.1bn) and 34.9% of spending (current expenditure: USD 13.1bn) in 2014, thanks to cost-of-living wage hikes and new public sector hires. The report expects 2% growth this year, while analysts forecast 1%.
- According to the World Bank, **the Syria conflict has cost Lebanon USD 7.5bn** as it struggles to host more than 1.3 mn refugees from the neighbouring country.
- **Budget surplus in Oman** was reported at OMR 615.4mn in Q1, lower compared to OMR 931mn in the same period a year ago. Although oil production edged up by 1.1% during this period, net oil revenues declined by 4.7% to OMR 2.6bn.
- **Oman's inflation rate** is running at 1.53% yoy in Apr, rising 0.58% mom, with education and health costs rising 6.3% yoy and 6.01% respectively while household equipment and routine household maintenance grew by 7.52%.
- The **CMA chief** in **Oman** called for tapping the capital market to finance infrastructure development and also revealed that the capital market contributed 38% to GDP. Vocal in calling for integration of capital market with the insurance sector, he also stated that draft legislation for Sukuk was ready.
- **Qatar's exports slowed** in yoy during the last three quarters of 2013: Q1 recorded growth of 8.4% and this was followed by 1.9%, 1.2% and 0.2% respectively in the

next three. **Asia was Qatar's largest trading partner**, accounting for about 91% of trade surplus in 2013, followed by European Union (5%) and Gulf region (4%).

- **Qatar might extend the current budget year** (Apr 2014 – Mar 2015) **until 2015-end** to adopt a new financial year of Jan-Dec from then on, reported *Al Sharq* – in line with the recently approved draft law that, among others, seeks to change the financial year from Apr-Mar to Jan-Dec.
- **SAMA's net foreign assets** climbed to a record-high of SAR 2.732trn in Apr, rising 9% yoy; Apr M3 money supply growth decelerated to 13.3% yoy (Mar: 13.6%) while credit growth to the private sector eased to 11.8%, the slowest since Jan 2012 (Mar: 12.8%).
- **Saudi's** Shura Council will discuss a proposal to establish **a new sovereign wealth fund**
- **Expatriate population in Saudi Arabia** is more than 10mn, including three million dependents, while annual outward **remittances** increased to SAR 148mn, according to the country's Deputy Labour Minister. He also applauded the Nitaqat system and revealed that 750k Saudis, including 400k women, were hired in the private sector by Apr 2014. Separately, a report by the Ministry of Civil Affairs revealed that **government sector** currently employs 1.2mn **Saudis**.
- **Saudi Arabia's** government is joining hands with the investment banking arm of Riyadh Bank to set up a SAR1bn **venture capital fund** to invest in startups, especially companies focusing on advanced materials, sustainable energy, and information, communication and technology industries.
- A report on **manufacturing industries in the GCC**, published by GOIC, showed that with an annual average growth of 4%, the total value of investment capital of these industries touched USD 369bn in 2013. Saudi Arabia accounted for the lion's share of the total industrial investments, at 54.2%, followed by Qatar and UAE at

22.2% and 8.8% respectively.

UAE Focus

- **UAE's May PMI signaled expansion**, though the headline number was down to 57.3 from April's high 58.3. The pace of expansion of non-oil sector private output was the second-quickest on record, while new orders also increased, albeit at a lower pace.
- Global FDI ranking compiled by ATKearney showed an improvement in **UAE's FDI ranking** to 11th position, thanks largely to UAE firms increasing their foreign ownership ceilings prior to MSCI upgrade. US topped the list for the second consecutive year, followed by China, Canada, UK and Brazil.
- **UAE remains cautious on ties with Iran**, if one were to go by statements from the Foreign Minister: he said that re-establishing cordial relations with Iran further requires ending occupation of the three UAE's islands, halting the Iranian interference in the internal affairs of Arab countries and settlement of several other issues. However, a large number of **Emirati delegates**, including the heads of seven chambers of UAE, **visited Tehran to explore potential areas of bilateral economic relations**.
- UAE's **Aldar** announced the **repayment of a AED 4.58bn loan** that matured at the end of May; the company, which confirmed it had successfully refinanced or agreed new terms on all its financing facilities since its merger with Sorouh, said that repayment was done using cash and by drawing down on committed liquidity facilities that carry an annual interest cost of 1.7%.
- **Sovereign wealth fund (SWF) assets** in the GCC are estimated to reach USD 2.25 trillion in 2014, according to Euler Hermes. Of the total, **UAE** SWF assets are expected to reach USD 975bn or 43% of the GCC total.
- **Abu Dhabi hotel occupancy** surged to 84.6% in April, as

strong demand led to a 9% rise in average room rates to \$163.32, which resulted in revenue per available room to increase 18.2% to \$138.22.

- **Meydan** has agreed **AED 700mn financing deal** with CBI, with a loan tenor of 8 years, to build more than 1,500 villas for Emirates Group in Meydan City. 500 villas in the new tranche are to be delivered by Mar 2015 and the rest over a further 24-month period.

Media Review

Former Buba's Head reflects on the rift between Europe and US

<http://www.ft.com/intl/cms/s/0/bb7b29e0-e10c-11e3-875f-00144feabdc0.html>

European banks are a drag on growth

<http://www.reuters.com/article/2014/06/02/us-europe-banking-bloated-idUSKBN0ED13V20140602>

Energy projects worldwide will require huge investments

<http://www.nytimes.com/2014/06/03/business/energy-environment/report-calls-for-huge-investment-in-energy-development.html>

Larry Summers blames the crisis on households' debt

<http://www.businessinsider.com/larry-summers-takes-a-big-shot-at-thomas-piketty-2014-6>

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