

Weekly Economic Commentary – Jun 15, 2014

Markets

Developed countries stock markets were generally weak with the exception of Japan, hit by skepticism over the pace of recovery. BoE's Carney's warning on a sooner than expected tightening cycle was a reminder that the stock price are lifted more by the abundant liquidity than real growth. Emerging markets on the other side had a decent performance, which however did not influence much regional markets, mixed at best. The euro was weak against all majors, especially the yen and the pound lifted by the hawkish BoE stance. Oil prices were on the rise due to the renewed large-scale insurgency in Iraq and likewise the gold price benefitted from tensions generated by the conflicts in the Middle East and Ukraine.

Global Developments

US/Americas:

- **US business inventories increased** by a more than expected 0.6% mom in Apr after rising 0.4% mom in Mar. retail inventories excluding autos – which go into the calculation of GDP – rose 0.2% mom after a 0.1% mom rise, suggesting a stronger Q2.
- **US retail sales grew** at a slower than expected 0.3% mom in May following strong gains in Apr (0.5% mom), Mar and Feb.
- The Thomson Reuters/University of Michigan preliminary **sentiment index unexpectedly fell** to 81.2 from 81.9 in May.
- **US initial jobless claims increased** to 317,000 and continuing claims were slightly up to 2.61m, decidedly lower than the 2.86m at the start of the year and over

3m a year ago. The four-week moving average went up to 315,200 from the prior week's 310,500.

Europe:

- **Eurozone industrial production climbed** 0.8% mom in Apr (1.4% yoy), after a -0.4% decrease in Mar (+0.2% yoy), corroborating the gradual pick up.
- **UK industrial production grew** 0.4% mom and 3% yoy in Apr, with manufacturing faring even better at 0.4% mom and 4.4% yoy.
- **Bank of England Governor** Carney's in a speech announced that UK **interest rates could rise** sooner than expected by markets.
- Sentix **eurozone investor sentiment** index **fell** to 8.5 points in Jun, from 12.8 against expectations of a gain.

Asia and Pacific:

- **The People's Bank of China cut** by 0.5% the **reserve ratio** for banks that lend predominantly to small businesses and rural borrowers.
- **S&P confirmed China's AA- rating** – the fourth highest possible – citing robust economic growth potential and strong public finance.
- **China Industrial production grew** 8.8% yoy in May following a reading of 8.7% yoy in Apr.
- **Japan's service sector** index **collapsed** 5.4% mom in Apr, after the increase in VAT, its worst monthly reading in more than three years, an effect equal to the Fukushima earthquake.
- **Japan's current account** recorded a **surplus** of JPY 187.4bn in Apr, up from JPY 116.4bn in Mar, but below forecasts of Y288bn.
- **Japan consumer confidence improved** but remained depressed in May at 39.3, well below the neutral 50 level.
- The **Reserve Bank of New Zealand lifted its rate** by 25bp

to 3.25%, due to concerns about inflation.

Bottom line: No major surprises were recorded last week in the data flow. The **prospects remain mixed with the World Bank downgrading its global GDP forecast for 2014 to 2.8% from 3.2%**. The rebound expected in the last part of the year will be driven by developed countries. Developing country growth is seen rising in 2015 and 2016 to 5.4% and 5.5% respectively, but geopolitical risks from Syria to Ukraine cloud the horizon. The OECD composite leading indicator held at 100.6 for the sixth month in a row in April. The Paris-based think tank forecast that the economies of its members will grow by 2.8% in 2014, up from 2.2% in 2013 a downward revision from early 2014, amid slower growth in emerging markets and the US.

Regional Developments

- **Egypt's cabinet is expected to be formed today**; it is widely anticipated that the main ministers from the interim cabinet will be reconfirmed, hence allowing for quick implementation of the planned reform package.
- **EU investments in Egypt reached** EUR 22.7bn, including grants and loans from the European Investment Bank, according to an Egyptian official. These investments accounted for around 81% of total foreign investments in the country over the past 3 years.
- **Gas production in Egypt** is expected to **rise** by 500mn cubic feet per day by end-Dec, bringing total gas production to roughly 5.2bn cubic feet per day, according to the country's Oil Minister.
- **Egypt's core inflation fell** to 8.86% in May and compares to 9.11% the month before while the urban consumer inflation rate slowed to 8.2% in May (Apr: 8.9%).
- **Current account deficit in Egypt narrowed** to USD 232.7bn at end-Mar 2014, from a deficit of USD 5.7bn a year ago. This implies a surplus of USD 523.1mn in Jan-Mar period, probably thanks to growing remittances and regional aid. Trade deficit declined by 1.5% to USD 25.2bn from USD

25.6bn a year earlier while FDI rose to USD 4.7bn in the first nine months, up from USD 3.6bn a year ago.

- The **5% supplementary tax** on **Egypt's wealthy individuals** has now been extended to companies. According to a former chairman of the regulator, corporations that earn less than EGP 10mn annually would be taxed at 25% instead of the current 20% while those making in excess of EGP 10mn would be taxed 30% instead of 25%.
- **Iraq's** oil minister defiantly affirmed that **oil production will reach 4m bpd before end 2014**, in spite of the deteriorating security situation in the north of the country.
- **Jordan's demand for electricity** is expected **to double** from 2,000 megawatts (MW) to over 4,000MW by 2020, hence making the development of secure alternative energy supplies a top national priority – especially given multiple disruptions in the supply of Egyptian gas, according to the nation's Energy Minister.
- **Inflation in Jordan** was **up** to 3.3% in May, thanks to rising costs of transport, education and rents.
- The **Jordanian Embassy in UAE** revealed that it received applications to make **investments worth USD 3.3bn in Jordan**, with 55% of such investments having been made in Jan-Apr 2014 while the rest were made last year.
- **Kuwait's total electricity consumption** touched 11,500MW last Monday, a **new record this year** and only 500MW lower than the all-time record registered in Jul 2013. Electricity demand was up 12% in May, with total consumption at 10,950MW on May 31, up from 9,200MW on Apr 30.
- **EIB** agreed and signed **loans** worth EUR 121mn with **Lebanon** to boost SME performance; Byblos Bank and Fransabank each received loans worth EUR 45mn from the the EIB.
- **Economic indicators in Lebanon** have **improved** during Q1, according to the country's Environment Minister and based on these indicators, local consumption of durable goods and local investment is expected to go up by 7%

and 5% respectively, with a slight improvement in FDI, leading to a real GDP growth rate of 3% in 2014.

- **Government revenues in Oman declined** by 7% yoy to OMR 3.21bn in Mar, thanks to a 4.7% decline in the Sultanate's net oil revenues and a 1.8% drop in gas revenues. Total expenditure was up 2.9% to OMR 2.6bn, creating a budget surplus of OMR 988.6bn by Mar, compared to OMR 897.2bn surplus a year ago.
- According to the CEO of **Oman's** Sohar Freezone, **total investment** in the phase one development of **Sohar Freezone** reached approximately USD 500mn, with occupancy at about 80% while close to 23 projects have been committed.
- **S&P affirmed its 'A/A-1'** long- and short-term foreign and local currency sovereign credit **ratings** on **Oman**, supported by the country's strong net external and general government asset positions and prudent investment policies though "constrained by the view of its still-nascent public institutions, the challenge of creating sufficient youth employment, and limited monetary policy flexibility".
- **Moody's** stated that greater competition and regulatory challenges – i.e. ensuring that all banks remain domestically focused, targeting the same clients and asset classes – were increasing pressure on **Oman's mid-sized banks**. The rating agency also revealed that all mid-sized banks have market shares ranging between 7-13%, well below Bank Muscat – the dominant bank with a 38% market share in Oman, and are estimated to provide a return on average assets averaging at around 1.4-1.6% in 2014.
- The **average monthly expenditure for Qatari households increased** by 82.2% from QAR 22,400 in 2001 to QAR 40,800 in 2007, with housing registering the biggest share of 29.3% of total monthly expenditure. This was complemented by a 45.9% rise in the average monthly household expenditure for non-Qataris, from QAR 9,100 in

2001 to QAR 13,300 in 2007.

- **Qatar's inflation was up 3.4% yoy and 0.5% mom in May**, thanks to rising rents and higher prices of furniture, garments, transport and entertainment.
- The **Qatar stock exchange**, in a bid to boost liquidity, is considering provision of '**remote membership**' – these would be foreign brokers, based abroad and will likely gain traction, once the QSE allows derivatives because many derivatives exchanges provide for remote access, and also introduce multi-currency trading.
- **Qatar central bank** plans to issue QAR 4bn worth of **local currency government bonds** this week; the debt, which is to be auctioned on Sunday, will include QAR 2.1bn worth of three-year conventional bonds and QAR 950mn each of five- and seven-year tranches.
- **Saudi Arabia imports 70% of its food needs**, according to a spokesperson for the Saudi Food and Drug Authority.
- **SAMA's** recent step to issue **real estate financing licenses** to some banks and other financing institutions to rein in rising house rents is likely to bring about the expected results, according to various experts. Currently, about 12 banks and eight financing companies have licenses while primary approval has been issued to 10 other financing companies.
- **Saudi Arabia's planned sovereign wealth fund** is expected to start with **capital representing 30% of budgetary surpluses accumulated over the years**. While details of the Fund's investment strategy has not yet been disclosed, the Shura council advisory body meeting to discuss this proposal failed to yield any result.
- **Saudi non-oil commodity exports** were **up** 0.4% yoy to SAR 18.07bn in Apr while imports were down 5% to SAR 54.4bn and the ratio of non-oil exports amounted to 33.2% of the total value of imports.
- **S&P** estimates **Saudi GDP per capita** at \$26,000 in 2014 amidst a forecast of general government's net asset position at close to 110% of GDP on average during

2014-2017.

- **GCC-China bilateral trade flows hit a record high** in Jan – about 14% of total GCC imports came from China and the weight of China in GCC imports has more than doubled compared to a decade ago. This underscores the need for an FTA at the earliest between the two.

UAE Focus

- **UAE GDP grew** by 5.2% in 2013 – the fastest pace since 2006 – to AED 1.087 trillion (2012: 1.03 trn), thanks partly due to “development of oil output and good and stable oil price levels”. The non-oil sector, at AED 731.79bn, accounted for 67.3% of real GDP while gross fixed capital formation was AED 324.6bn (2012: AED 299.37bn).
- The **IMF**, releasing the concluding statement after its Article IV consultation, revealed that fiscal spending was to be further consolidated this year, with cuts expected in security, defence, and other current expenditures. The IMF also cautioned on risks stemming from the accelerating property sector in Dubai, calling for further measures to rein in speculative demand, and warned about the risks for its GREs.
- **Money supply (M2) growth in the UAE accelerated** to 23.6% in Apr – a new post-2008 high while deposits grew 1% mom and 8.3% yoy and credit growth was 0.6% mom and 8.3% yoy. The total increase in deposits and loans year to date was AED 66bn and AED 37.4bn respectively compared to AED 74bn and AED 26.6bn the same time a year ago.
- **UAE's Financial Stability Indicators report** showed a **slight decline** in capital adequacy ratio to 19% by end-Dec 2013 (2012: 21%), thanks to the partial or full repayment of Tier-2 capital granted by the Ministry of Finance in 2009 while Tier-1 capital remained largely unchanged at 17.2%. NPLs started to decline since Q4 2013, with NPL ratio of 8.4 per cent representing total

classified loans of AED 107bn by end-Dec.

- Low residential rental yields in Dubai and Abu Dhabi may indicate widening imbalances and overheating in **real estate**, according to the **UAE central bank**. Following this warning from the CB, **Dubai Land Department** claimed that the property sector surge was due to “an improvement in fundamental economic factors, rather than down to speculation”.
- **Dubai** is on track to **meet** its **2030 energy goals**, according to DEWA’s CEO (on the sidelines of an energy conference): to reduce gas use to 71%, and mix its energy sources by depending 12% on nuclear energy, 12% on clean coal and 5% on solar power.
- According to STR Global’s preliminary data, **Dubai hotel occupancy declined** by 2.5% yoy to 78.1% in May, whereas the average daily rate was up 4.3% to AED 809.88, leading to a 1.7% rise in revenue per available room to AED 632.23.

Media Review

The next technological frontier: can machine think?

<http://www.ft.com/intl/cms/s/0/501be618-efcf-11e3-9b4c-00144feabdc0.html>

M&A poised to reach the \$1 trillion mark this quarter

<http://www.bloomberg.com/news/2014-06-11/trillion-dollar-m-a-quarter-makes-a-return-for-better-or-worse.html>

The ten weirdest economic facts of 2014

<http://www.businessinsider.com/10-facts-about-2014-that-have-surprised-everyone-in-the-market-2014-6>

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