

Weekly Economic Commentary – Jun 22, 2014

Markets

Stock markets in the US finished the week at record highs again after the Fed reiterated a dovish message and concerns about the various crises from Iraq to Ukraine are being shrugged off. Only volatility, as measured by the VIX, has reacted to events in conflict zones. In Europe the stock markets were less cheerful, but still close to record levels. The dollar gained substantially over the euro, while against the yen it remained almost unchanged. **Volatility has returned with vigour to the oil markets**, as fears over crude supplies from Iraq sent futures trading volumes sharply higher. Brent prices have broken out of the upper range USD 110 per barrel which had prevailed for a few years and touched briefly a 9 month high at 115, before retrenching a little. **Gold price recorded its largest price rise in nine months** pushed by the flight to safety caused by security tensions.

Global Developments

US/Americas:

- The main message from the US FOMC policy meeting was distinctly dovish: the **FED is not excited about the improving data**; hence rates will not be tightened anytime soon. The Fed lifted slightly up its projections for short-term interest rates in 2015 and 2016 but slightly reduced the outlook for interest rates in the longer-run.
- The **IMF cut its growth forecast for the US** to asserting that it will not reach full employment until end of 2017, allowing interest rates to be held near zero for longer than financial markets expect. Country's

potential growth should only be around 2 percent going forward, below historical averages, as the population ages and productivity growth slows.

- **US consumer prices** rose 0.4% mom (2.1% annually) in May, exceeding expectations and following a 0.3% mom (2% annually) gain in Apr. Core CPI – excluding food prices – rose 0.3% mom at the fastest pace in more than 3 years.
- **US industrial production grew** by a more-than-expected 0.6% mom sa in May rebounding from Apr's -0.3% dip which followed strong gains of 1.1% and 0.8% in Jan and Feb. Manufacturing output rebounded 0.6% mom driven by auto output.
- **US housing starts declined** for the first month in 4 by a more-than-expected -6.5% mom in May (1.001 mn annually sa). Declines were across the board. Building permits dipped -6.4% driven by the volatile multi-family segment but permits for single-family homes surged 3.7% mom – the fastest pace in more than a year.
- The **NAHB housing market index rose** to 49 in Jun from 45 in May, beating expectations.
- **US initial jobless claims fell** 6,000 to 312,000 offsetting the previous week's increase. The four-week moving average dropped by 3,750 to 311,750, while continuing claims fell 54,000 to 2.56 million, a post-recession low.
- The **US Conference Board index of leading indicators gained** 0.5% in May, after 0.3% in Apr, scoring the ninth increase in 10 months.
- The **US Supreme Court rejected the appeal by Argentina's** government fighting the request by a group of bondholders to be paid in full and not on the terms established in a negotiated restructuring several years ago. **Argentina has threatened to declare a default on all its obligations.**

Europe:

- **Eurozone's inflation glided down** to 0.5% yoy in May from 0.7% in Apr thanks to lower food prices and a strong euro.
- The **German ZEW investor confidence** index **fell** 3.3 points to 29.8 in Jun – the lowest level in 18 months and the 7th consecutive decline.
- **UK retail sales fell** -0.5% mom in May led by a slump in food sales -2.4% mom. Sales for the 3 months to May rose an annualized 4.9% – the fastest pace in almost a decade.
- The **eurozone current account surplus narrowed** to EUR 18.7 bn in Apr from EUR 21.6 bn in Mar and EUR 14.8 bn a year earlier.
- **Italy's new industrial orders jumped up** 3.8% mom in Apr after a strong 1.4% in Mar.

Asia and Pacific:

- The **PBoC** announced the start of **direct on-shore trading of CNY-GBP** another step on the road for internationalization of the Yuan.
- The State Bank of **Vietnam** slightly **depreciated** the **dong** by lowering 1% its reference rate in order to boost exports.

Bottom line: The **macroeconomic data did not add much to the macro outlook, which anyway is not guiding markets as much as the central banks' policies**. It is ever more evident that **asset prices are determined by the liquidity injected by the monetary authorities** and any other factor is downplayed. The Fed assurance that the party will not be over soon has given additional confidence to investors in the short run, but since valuations are overstretched a **correction during the summer lull becomes a distinct possibility**.

Regional Developments

- **S&P** affirmed its long- and short-term foreign and local

currency sovereign credit ratings on **Bahrain** at BBB/A-2, supported by its “relatively stable growth prospects”, though constrained by “unresolved domestic political tensions” and “its fiscal dependency on sustained high oil prices”.

- **Egypt**'s Investment Minister stated that the **capital gains tax is pivotal to finance the budget**, though the final decision whether to adopt or not lies with the Cabinet and Ministry of Finance.
- **Egypt Natural gas exports dipped** 80.94% yoy as gas was diverted from exports to meet domestic consumption; gas production also fell 14.7% in Apr.
- **Egypt** is expected to **finalise about 75% of government's 2013-14 planned projects** by June 30, along with the urgent plan projects from the first stimulus package, according to the Minister of Planning and International Cooperation.
- **Mortgage finance to Egyptian firms** touched EGP 4.4bn by end-Mar, according to the Egyptian General Supervisory Authority.
- **India** is expected to **pay Iran's oil dues** worth USD 1.65bn via the UAE central bank, according to various sources, **using Rupee to Dirham transfer** so that funds would not be routed through the US clearing system.
- **Qatar**, with KWD 1.94bn, was the **top contributor to Kuwait FDI**, accounting for about 65.6% of total inflow; ten countries jointly contributed 98.8% of the total FDI with a value of KWD 2.93bn at the end of 2012.
- **Lebanon**'s central bank Governor revealed that **injection of additional facilities** was being contemplated as most of the USD 800mn (provided in credit facilities) allocated for this year has been used up. He also called for the government to **privatize the Beirut Stock Exchange** in accord with the Capital Market Laws to improve its performance.
- Both Ireland and Kuwait have announced **financial support for Syrian refugees in Lebanon**, with the former

promising USD 2.7mn in aid.

- **Oman** allocated OMR 1.29bn towards the 2014 **healthcare budget**, more than double the OMR 500mn spending last year, in a bid to tackle the rise of lifestyle diseases in Oman and broaden the range of medical facilities available locally.
- **Oman's** Muscat Securities Market (MSM) has revised the constituents of its **MSM Sharia Index** – to 31 companies that comply with the AA0IFI requirements for Islamic investment principles; the index revision will be effective from today.
- **Electricity production in Oman** was **up** in Apr by 4% yoy to 7117.4 GW per hour while water production grew 4.6% yoy to 95.56mn m3.
- **Monthly salary in Qatar** for its 1.53mn paid employees averaged QAR 9,667 in 2013. The 192,584 women in the workforce earned an average QAR 8510 vis-a-vis the mens' QAR 10,075.
- **Saudi non-oil exports** were up 18.7% yoy to SAR 54.82bn in Q1 2014.
- **Saudi Arabia** imported 981k cars in 2012 valued SAR 77bn, or 13% of total Saudi imports, as per Saudi Industrial Development Fund data, and compares to an average 679k cars during 2005-2012.
- The number of **jobs allocated for Saudi nationals** by the Training and Recruitment Center at Riyadh Chamber of Commerce and Industry **reached 11,751** in about 70 private sector firms with a salary range of between SAR 4-10k; however, **only 1,760 have responded to interview calls.**
- About 3.1% of total households in **Saudi Arabia** hold private wealth of at least USD 1mn, ranking the country 13th globally by proportion of millionaire households in BCG's annual global wealth management report. Saudi Arabia also holds the highest share of assets in GCC in 2013, with 51% of households falling within the USD 5-100mn band, and 7% in the band with > USD 100mn; UAE holds 51% and 5% in those categories while Kuwait is at

39% and 3% respectively.

- A.T Kearney's latest **global retail development index** places **UAE** at 4th place globally, as retail sales grew 5% to USD 66bn in 2013. Kuwait, Saudi Arabia and Oman were placed 8,16 and 17 in the global index, which was topped by Chile, followed by China.
- The **2014 Global Peace Index** placed Qatar the most peaceful nation in the **GCC ranking** 22 globally, followed by Kuwait at 37, the UAE at 40, Oman at 59, Saudi Arabia at 80 and Bahrain at 111. Total cost of preventing or dealing with violence in the UAE was estimated at USD11.7bn in 2013, equivalent to 4.3% of GDP or USD 1,270 per person and compares to a total cost of USD 6.15bn in Qatar, USD 8bn in Kuwait, USD 13bn in Oman, USD 88bn in Saudi Arabia and USD 3.67bn in Bahrain.
- A recent **IFC** report identified a potential gap of up to USD 13.2bn for **Islamic SME financing** across nine countries in the Middle East region. Additionally, of 36% of banks in the region with an SME offering, only 17% currently have an Islamic SME offering.
- According to **CBRE research**, **investors** from the **Middle East are expected to spend USD 180bn in commercial real estate markets outside** of their own region over the next decade, with Europe the preferred target.

UAE Focus

- **Dubai's GDP grew 4.6% in 2013**, according to the Dubai Statistics Centre data, with hospitality the fastest growing sector at 13%, followed by manufacturing (8.1%), social and personal services (6.8%) and transport, storage and communication (5.6%).
- **Inflation in Dubai picked up** to 2.76% yoy and 0.18% mom in May, compared to 0.9% yoy in May 2013, as prices of education and food and non-alcoholic beverages were up 4.87% and 2.98% respectively while housing and utility costs were up 4.66%.

- **Abu Dhabi inflation rate** was 2.5% over the first five months of 2014, with CPI up 2.8% yoy and 0.2% mom in May alone.
- **Dubai** ranks among the top three most **popular destinations among high-net-worth Chinese travelers**, rising from 8th place in 2013 to 3rd place in 2014. In 2013, China was one of the top 10 source markets for visitors to Dubai with Chinese visitors up 11% yoy to 275,675.
- **High-end off-plan sales in Dubai** is growing thanks to international investors, primarily from China, according to S&P. DLD data show that about 1,000 Chinese investors spent AED 1.3bn on land, residential units and office real estate in Dubai in 2013.

Media Review

Price liberalization in Oman

<http://main.omanobserver.com/?p=88963>

The new landscape of SWFs according to the Economist

<http://www.economist.com/blogs/freeexchange/2014/06/private-markets-public-investors?>

Chinese Sovereign Wealth Fund wastes half a trillion dollars

<http://www.bloomberg.com/news/2014-06-18/china-auditor-says-cic-mismanagement-led-to-investment-losses.html>

Middle East private equity funds attract US capital

http://www.zawya.com/story/Mideast_fund_managers_cast_wider_net_in_US-ZAWYA20140616085234/

MENA Economic Associates
 **one step ahead**