

# Weekly Economic Commentary – Jun 29, 2014

## Markets

US **stock markets** pared early week losses bringing the S&P 500 index one-day shy of the longest rally in over a decade. But elsewhere, European shares ended a run, closing lower as geopolitical tensions played out in Ukraine and Iraq and Asian shares followed suit. Markets of the **region** were mixed amid thin trading; Dubai and Qatar led the losses. The **yen** rose, the **euro** was little-changed and the **dollar** slid to a 7-week low as GDP data revealed a faltering recovery. **Gold** continued to climb for the fourth week straight and **oil** dropped despite Iraq tensions, which remain contained away from the oil-producing southern region.

## Global Developments

### **US/Americas:**

- The **third revision of US GDP in Q1** delivered a shock diving -2.9% qoq ann, compared to 2.6% in Q4 (and -1% decline registered in the second estimate). This was the sharpest decline since Q1 2009. The plunge resulted from lower investment and exports, and a large drag from inventory investment. Consumer spending growth slowed while the government drag was smaller than in Q4. Corporate profits fell -9.8% and gross domestic income dropped -2.3%. Revisions were caused by consumer spending on healthcare and trade.
- **Existing-home price gains decelerated** as the 10-city composite index is up only 10.8% yoy in the three month ending in Apr, compared with the 12.6% in Q1. The 20-city composite is also up 10.8% the same period, compared with the 12.4% reported for Q1.

- **US existing-home sales in May jumped** 4.9% mom to 4.89 million annualized units, the highest monthly gain since August 2011 (5.5%). versus Apr level of 4.66mn units. More momentum is needed, as levels are 5% lower from May 2013. The market for existing homes is improving: months of supply inched down to 5.6 from 5.7, and the number of homes for sale is up 6% yoy.
- **Sales of new single-family homes surprised on the upside** at 504k annualized units in May up 18.6% mom their fastest pace since mid-2008.
- **New orders for US durable goods fell** -1% mom in May. Excluding transportation, new orders fell only -0.1% and excluding defense items orders increased 0.6%.
- **US personal income rose** 0.4% mom in May (Apr: 0.3%). Wage income gains accelerated from 0.3% to 0.4%. Dividend income led growth with most other components posting nearly average increases. Nominal consumer spending rose 0.2% after being flat in Apr.
- **US initial jobless claims fell** 2,000 to 312k, close to the lowest score since the recession ended. The four-week moving average rose 2,000 to 314,250. Continuing claims were up 12,000 to 2.57 million.

### Europe:

- **Eurozone's** Conference Board **leading economic index rose slightly** to 111.7 in May from 111.4 in Apr. Meanwhile, the corresponding economic index, which measures current economic activity, was unchanged mom.
- The **German Ifo Business Confidence Index worsened** slightly in Jun to 109.7 from 110.4 in May.
- The **Eurozone's economic sentiment index fell** in Jun to 102, its lowest in three months, from 102.7 in May.

### Asia and Pacific:

- **HSBC/ Markit flash China manufacturing PMI rose** to a more-than-expected 50.8 in Jun from 49.4 in May,

entering growth territory for the first time since Dec. New domestic orders surged the most in 15 months while new export orders slumped.

- **Singapore's industrial production in May fell** -2.5% yoy, after a 5.3% rise in Apr. Electronics and pharmaceuticals were softest sectors due to PC weak demand and maintenance at some pharmaceutical companies.

**Bottom line:** The macro data came out all on the weak side, with the Q1 US GDP unexpected drop leading the way. The exception was the real estate sector in the US that has picked up again after the winter. Nevertheless it is clear that **forecasts of a robust global pick up throughout the year appear over optimistic.** Separately, UNCTAD's World Investment Report 2014 revealed that FDI flows to developing economies reached a new high of USD 778bn in 2013, accounting for 54% of global inflows.

### Regional Developments

- Expected **premiums in Egypt's insurance sector** are estimated to **grow** by 17.2% yoy to EGP 15bn by end-June, according to the Egyptian Financial Supervisory Authority, with investments of the insurance sector rising 6.3% to EGP 45bn.
- **Subsidies:** Egypt's Ministry of Finance has provided **guarantees worth USD 67mn** to the state-run General Authority for Supply Commodities to secure 60k tonnes of wheat to boost the country's strategic stocks along with 41k tonnes of cooking oil. It also announced payment of EGP 600mn to the state-owned sugar company to help procure raw sugar on the international markets.
- **Budget deficit in Egypt** for the fiscal year, starting July, is likely to be 10% compared to 12% this fiscal year, as per the Finance Minister. However, a revised budget was to be submitted to the President after he rejected and sent back the budget, asking for a lower deficit and debts.

- **Egypt** received a **USD 385mn loan from the Islamic Development Bank** to help finance construction of a power station. The station, which is expected to be on line in stages by 2017-18, is estimated to cost a total EGP 12.5bn.
- **Saudi** Arabia announced that it would inject USD 124mn into the **housing development company Saudi Egyptian Construction Company**, with Egypt contributing about 103.8 acres of land in three cities worth about the same amount.
- **Iraq's oil exports remained unaffected** by the domestic turmoil, as southern exports averaged 2.53mn bpd in June according to shipping data for the first 21 days of June tracked by Reuters. While it is close to May's average of 2.58mn bpd, the highest since 2003, it remains lower than authority's estimated 2.7mn bpd in June.
- **Jordan's central bank cut interest rates** on overnight Deposit Window Facility and Weekly/Other Repurchase Agreements reduced by 50bps each to 2.75% and 3.0% respectively, while other rates were kept unchanged.
- **Lebanon's CPI** showed a 0.3% **decline** in May, hence bringing inflation year-to-date to 1.32%. By category, in May, prices of food and non-alcoholic dropped 2.2%, while health care and transportation prices increased by 0.8% and 0.6% respectively.
- **FDI flows into Lebanon declined** by 23% yoy in 2013, according to the UNCTAD World Investment Report 2014, largely due to the fact that less capital was channeled from Gulf countries into the Lebanese real estate sector.
- **Total credit disbursed by Omani banks** stood at OMR 15.8mn as of Apr, **up** 10.6% yoy while credit to the government declined by 39.8% alongside increases of 10.5% and 11% to the private sector and public enterprises respectively.
- **Oman-India bilateral trade grew** 25% yoy to USD 5.77bn in 2013-14, stated India's Ambassador to Oman, with exports

from Oman growing at a much faster rate of 47%. He also revealed that there were over 1,500 Indo-Omani joint ventures in Oman with an investment of USD 7.5bn, of which Indian investment was estimated at USD 4.5bn.

- **Oman**, where **SME's** contribution to GDP is now around 15-16%, has launched the **Al Rafd fund** – which can only finance projects worth up to OMR 100k – which allows SMEs to access loans without guarantees (from seven participating banks as opposed to two earlier).
- Thanks to robust domestic demand, **Qatar's GDP is expected to grow 6.3% this year and forecast to rise to 7.8% in 2015**, according to the Ministry of Development Planning and Statistics. The construction sector is projected to expand by 14.1% in 2014, up from 13.6% in 2013 and grow much faster in 2015, given the large scale of planned economic infrastructure projects. Fiscal surplus is forecast to narrow, given the large public investment plans ahead of the 2022 World Cup, to 9.3% of GDP in 2014 and 5.5% in 2015.
- **Bank assets in Qatar** touched QAR 951.9bn in May and credit to the private sector grew by QAR 2bn to QAR 300.4bn; additionally, credit to the government and the public sector fell 5.9%.
- **Japan, South Korea and India** were **Qatar's top export partners** in 2013, with exports at QAR 145bn, QAR 89.4bn and QAR 52.1bn respectively. Asia accounted for about 79.4% of total Qatar exports, followed by the EU (9.9%) while major exports included Liquefied Natural Gas (LNG), crude oil, condensates, propane and other such chemicals. Among GCC nations, UAE was major export destination (QAR 21.2bn) followed by Kuwait (QAR 4.2bn) and Saudi Arabia (QAR 4.1bn).
- **FDI in Saudi Arabia dropped** 23.67% yoy to USD 9.3bn in 2013, the lowest since 2008, as per UNCTAD.
- **Saudi citizens represent 93.98% of the 1.2mn public sector workforce**, with the educational sector the biggest employer of Saudis (513,569 staff).

- **Saudi Arabia** has **exempted** companies with nine or less expat workers and no Saudis from paying a SAR 2,400 **expat levy** for four foreign workers. This move is expected to benefit about 900k SMEs in the country.
- **Saudi Arabia's General Auditing Bureau** revealed that it had filed 67 **lawsuits against government departments** that had "squandered" public funds worth SAR 5.6bn.
- **FDI flows into Kuwait are estimated to have decreased** by 41%, as UNCTAD data showed an increase in **FDI flows into the West Asia region**. Turkey remained West Asia's main FDI recipient in 2013, with around USD 13bn, followed closely by the UAE (USD 10.5bn) and Saudi Arabia (USD 9.3bn).
- **Moody's** estimates that **higher fuel prices could bring the GCC debt down**. A case in point is Qatar where total government debt that stood at 35.8% of the country's GDP in 2012, but it decreased to 32.8% in 2013 thanks to higher fuel prices. Their analysis shows that a 1% decline in export prices would worsen budget balances by 0.08% while a 1% decline in the export commodity price index would decrease government revenue relative to GDP by 0.1% over the period of 2001-12, and 0.06% over the longer period of 1991-2012.

### **UAE Focus**

- **Nakheel** is expected to **prepay AED 5.54bn in Aug this year**, thanks to savings of around AED 23bn on its business plan, according to its Chairman and following the previous prepayment of AED 2.35bn of its bank loan earlier this Feb – hence repaying the AED 7.9bn it owes banks four years ahead of schedule ie. before the final loan installment due in Mar 2018.
- **UAE** spent AED 1.014bn in **foreign aid to ensure water supply** in 61 countries during 2009-13, as per the Ministry of Development and International Co-operation.
- Dubai Customs data revealed that the **UAE imported 772mn**

**kilos of rice** in 2013, of which 98mn kilos was re-exported. Domestic consumption was about 70-80kg of rice per capita per year – well above the global average of 64kg – valued at AED 2.1mn last year.

- The '**Global Real Estate Transparency Index**', compiled by JLL, ranks Dubai 49th globally, the Emirate retaining its status as the most “transparent” regional property market for global investors though the biggest improvement was for Qatar, while Abu Dhabi was placed 53rd.

### **Media Review**

***What is going on between China and the US?***

<http://www.project-syndicate.org/commentary/stephen-s-roach-wants-the-us-and-china-to-move-from-codependency-to-interdependence>

***Will Shale Gas ever be profitable?***

<http://www.firstenergycastfinancial.com/pdfs/101140.pdf>

***Piketty redux***

<http://users.nber.org/~jwolfers/papers/Comments/Piketty.pdf>

***IPOs as racketeering***

<http://www.ft.com/intl/cms/s/0/93bbb8da-fd44-11e3-96a9-00144feab7de.html?>

**MENA Economic Associates**  
 **one step ahead**