

# Weekly Economic Commentary – Jul 6, 2014

## Markets

Wall Street surpassed the 17,000 level after strong data on US non-farm payrolls were released ahead of the 4th of July weekend. **Asian and European shares** followed suit but in Europe most stock markets dipped on Friday amid profit-taking after the strongest 3-day rally in two months. **Gulf stock markets** ended their worst quarter in years on Monday as speculative bubbles continued to deflate in some stocks while the security crisis in Iraq and a lull in activity during the Holy Month of Ramadan dampened fresh buying. The Dubai market plunged 19% since the end of May, partly because of a collapse in the shares price of construction firm Arabtec. On the week, most regional markets were up with Dubai and Qatar leading the gains and Morocco the exception. The **euro** fell against the **US dollar** due to the combined effect of strong US job data and Draghi's dovish press conference, while the pound extended 6-year dollar-high after bullish UK macro data. **Oil** came under selling pressure as the unrest in Iraq and Ukraine – Russia confrontation subsided, for now. The Brent recorded its largest weekly drop since January, but remained around 110 \$/b. Gold prices recorded some modest advance in sluggish trade.

## Global Developments

### **US/Americas:**

- **US non-farm payrolls** rose by 288K in May (vs 224K in Apr) and the unemployment rate declined 0.2% mom to 6.1%. Over the year, the unemployment rate and the unemployed have declined by 1.4% and 2.3 million, respectively. The number of long-term unemployed dropped

by 293K in June to 3.1mn. Over the past 3 months, job growth has averaged 272K per month and for five straight months job increases exceeded 200K. Nominal wage growth remained at 2% yoy, roughly constant since the US emerged from recession in 2009.

- **US initial jobless claims** rose by 2k to 315k sa. The four-week moving average rose by 500 to 315k.
- **US construction spending** rose by a less-than-expected 0.2% mom in Apr to an annual rate of USD 953.5 bn following an upwardly revised 0.6% gain in Mar.
- The **US ISM manufacturing Index** was almost unchanged in Jun at 55.3 from 55.4 in May. The gauge for unemployment held steady while new orders rose to their highest since Dec. The **ISM non-manufacturing index** slipped to 56 in Jun from 56.3, coming off an 11-month high. The new orders sub-index rose to 61.2 from 60.5/
- **US factory orders** fell -0.5% mom in May ending a sequence of three monthly gains. Non-defense orders rose 0.2% after being unchanged in April and rising 1.1% in March. Durable goods orders were revised to show -0.9% decline (previously -1%).
- **Brazilian industrial production** retrenched -2.6% yoy sa in May, after dropping -2.4% in Apr, confirming that loss of competitiveness is sapping the economy.

## Europe:

- The **ECB** announced that its **Governing Council** will publish minutes of meetings to be held henceforth every 6 weeks like the Fed's FOMC. Draghi provided further details on the longer-term refinancing operations (TLTROs): banks will be able to borrow up to a total of EUR 400 bn in Sep and Dec 2014 and could raise up to an additional EUR 600bn in 2015 and 2016 if they exceed the ECB lending targets.
- **German manufacturing orders** fell -1.7% mom (5.8% yoy) in May, following a 3.4% mom (6.6% yoy) increase in Apr.

- **German retail sales** unexpectedly fell by 0.6% mom in May after dipping 0.9% mom in Apr.
- **The Swedish Riksbank** lowered its interest rate for the first time in six months to 0.25% from 0.75% to counter deflationary pressures.
- **A bank run** was triggered in **Bulgaria** after the Central Bank took control of Corpbank, the fourth-biggest in the country, halting its operations for three months. The authorities set up a USD 2.3 bn credit line but denied any systemic problems. A few days earlier, the IMF had deemed Bulgaria's financial sector as "stable and liquid". After the run a senior IMF official reiterated that banks remain well capitalised and liquid.

### **Asia and Pacific:**

- **China's** official **manufacturing PMI** rose to a 6-month high of 51 in Jun from 50.8 in May. The HSBC/Markit manufacturing PMI also rose, adding 1.3 points to 50.7 in Jun. China's Services sector also showed improvement as the HSBC/Markit **services PMI** rebounded 53.1 in Jun from 50.7 in May. The official services gauge remained in expansionary territory but growth slowed to 55 from 55.5 in May.
- **Japan Tankan business sentiment index** unexpectedly fell 5 points to +12 from 3 months ago, recording its first decline in six quarters.

**Bottom line:** With strengthening signs that the US economy is recovering and inflation is picking up, the normalization of the US monetary policy has once again come to the fore forcing the Fed and markets to face the dilemma over the timing of interest rate hikes. Yellen has confirmed her uber-dovish attitude, but calls from the opposite side are intensifying. The BIS has explicitly warned on the pernicious effects of ultra easy monetary stance especially for asset prices and debt building. Central banks are exerting an extraordinary influence on financial markets, generating a "search for

yield", obliterating the pricing for risk and capping market volatility. The response from both the ECB and the Fed was that macroprudential regulation should address undue risk taking in financial markets and the emergence of speculative bubble. At present though these regulations appear utterly inadequate for such task.

### Regional Developments

- **Real economic growth in Bahrain slowed** to 3.1% yoy in Q1, registering the weakest performance since end-2012, and to 0.1% in qoq terms. A EDB report forecasts Bahrain's non-oil GDP growth at 4.4% this year, boosted by a series of large infrastructure projects, thereby increasing the size of the overall economy by 3.5%.
- **Egypt's 2014-15 budget** was passed after energy subsidies were slashed and estimated budget deficit reduced to 10% of GDP, following President Sisi's rejection of the previous draft. Revenue in the new budget is expected rise by 8% to EGP 548.6bn and expenditure by 7% to EGP 789.4bn. Separately, the Finance Minister revealed that growth is forecast at 4-5.8% within the next three years.
- On the reforms front, **Egypt** has **raised electricity prices** and **started implementing capital gains tax**. Electricity prices, the average for a kilowatt hour, are expected to double within five years (from EGP 0.23 currently to EGP 0.51).
- Both **Japan and Saudi Arabia announced financial support**, given the worsening **Iraqi** situation: the former has allocated USD 6mn to support displaced Iraqis and will be mostly on foodstuffs and medical services; KSA's King pledged USD 500mn in humanitarian aid to be disbursed through the UN.
- **Jordan reported 3.2% yoy GDP growth in Q1** and compares to 2.6% growth in Q1 2013. The extraction industrial sector registered the highest growth rate in Q1 (7.1%),

followed by the non-profit special service producers' and construction sectors at 6.7% and 6.5% respectively.

- **Jordan's agricultural and food products exports** grew 21% yoy in the first 4 months of this year to JOD 329mn.
- **Inflation in Kuwait increased** to 2.9% in May from Apr's 2.7% – on par with core inflation rates. The rise was largely due to higher clothing and footwear prices as well as furnishing and household maintenance costs.
- **Oman's nominal GDP expanded** by 4.6% yoy in Q1 2014, as an 8.3% rise in non-oil activity offset a 0.2% contraction in the hydrocarbon sector. Nominal GDP was reported at R07.72bn in Q1 this year and compares to OMR 7.38bn in Q1 2013; services sector meanwhile surged 10.9% to OMR 3.14bn.
- **Total exports in Oman** declined 10.5% yoy to OMR 3.4bn by end-Feb 2014, while non-oil exports recorded the only rise of 23.9% to OMR 694.9mn.
- **Personal loans** accounted for about 40.1% of total bank credit **in Oman** while housing loans represented 6.2% of total personal loans; credit extended to the construction sector was the next major portfolio after personal loans, with a share of 9.8% in total credit and closely followed by the services sector at 8.5%.
- **Oman's subsidy bill** was up 8% to OMR 2.048bn in 2013, with subsidy on petroleum products, at OMR 1.119bn, accounting for 54.6% of the total and subsidy on electricity rising 26.9% to OMR 320.5mn. This year, budgeted petroleum subsidies are estimated at OMR 860mn, constituting 53% of the total subsidy bill.
- **Private sector jobs in Oman** grew 14.8% yoy in 2013 compared to 15.5% the previous year and expats were around 89.4% of the total private sector employment. Oman's Eighth Five-Year Development Plan estimates to provide new employment in the range of 200-275k during the period 2011-2015, with an annual increase of around 40-55k employment opportunities.
- **Oman's foreign assets** were up 11.2% yoy to OMR 6.1bn in

2013 (2012: OMR 5.5bn), it was revealed in the Central Bank's Annual Report 2013. An 8.2% increase in exports to OMR 21.7bn and a pick-up in imports by 24.2% to OMR 12.2bn led to a OMR 4.7bn balance of payments surplus.

- **Real GDP in Qatar rose 6.2% to QAR 89.24bn in Q1** (revised Q4 2013: 5.5%) while nominal GDP was up 2.6% yoy to QAR 192bn. In qoq terms, GDP grew 2.3% in Q1 vs 0.6% in Q4. Construction, trading, hospitality and financial sectors led the growth in Q1.
- **Qatar's overseas investments**, spread over 11 countries, touched USD 10.7bn in H1, reported *Al Sharq*. The daily also reported FDI inflow into Qatar's industrial sector at an estimated QAR 129bn, representing 52% of the total capital investment in the sector, as per a May 2014 update.
- **China overtook the US to become the top exporter to Qatar**: China was the leading country of origin of Qatar's imports with QAR 0.9bn in May, accounting for 10.3% of the country's total imports during the month while US and UAE followed.
- **GDP growth in Saudi Arabia** eased to 4.7% in Q1 2014, following 5.0% growth in Oct-Dec 2013. Labour market measures curbed activity, as was evident from construction output growth shrinking to 5.6% in Q1, the slowest pace since end-2012 and down from 9.9% in Q4 2013.
- **Headline PMI in Saudi Arabia** picked up to 59.2 in June, the highest since Jan and up from 57.0 in May; the pace of output growth quickened to a 26-month high.
- Kuwait's Finance Minister stated that "**GCC** member states are in talks with the two nations [*UAE and Oman*] in a bid to persuade them to join the [**monetary**] **union**".
- Investment into the **GCC education sector** is expected at close to USD 150bn till 2020, as per a report by Alpen Capital. Thanks to fast growing population in the region, total number of students are expected to grow at a 3% CAGR between 2013 and 2020 to 13.7mn while

enrolment at private schools is forecast to rise at a 6.7% CAGR.

- Around 80% of non-oil GDP within the Middle East region is accounted for by **family-owned business groups**, according to a Deloitte report. It was found that these private organisations were vertically integrated, owned sizable real estate portfolios while their operational control was still maintained by the original founding family member or the second generation. The survey of these organisations also highlighted gaps: more than 80% of the 222 respondents say their boards have no term or age limits on membership and one-third do not evaluate board members' performance.

### **UAE Focus**

- **IMF** forecasts **UAE economic growth** at 4.8% this year and around 4.5% in subsequent years, boosted by public projects in Abu Dhabi and the strong services sector in Dubai. Though investor sentiment has been boosted by the launch of megaprojects and the Expo win, inflation is likely to rise, driven by higher rents. Echoing similar views was a **BoA-ML report** wherein it was viewed that "Dubai needs a combination of internal cash generation, asset sales, refinancing, decent global outlook and liquidity, banking support as well as potential Abu Dhabi support" to combat its GRE refinancing.
- **UAE PMI** rose to 58.2 in June (May: 57.3), well above the long-run series average of 53.8, thanks to increases in output and new export orders – both at record highs. The rate of job creation also remained amongst the highest in the series history, despite easing slightly in mom terms.
- **Non-oil foreign trade in UAE** grew 5.9% yoy to AED 34.9bn in Q1 2014, as imports rose by 3.1% and non-oil exports registered an uptick of 44.2% to AED 1.6bn. 'Machinery and transport equipment' was the largest contributor to



imports in Q1 2014, accounting for 47.8% of the total.

- **UAE-Japan bilateral trade** fell 3.6% yoy to AED 187bn in 2013, largely due to a decline in oil prices and lower imports of machinery, iron & steel etc by UAE. UAE was Japan's 8th largest trading partner globally in 2013 and remained Japan's 2nd largest supplier of crude oils after Saudi Arabia, meeting 23% of the country's total crude oil needs.
- In spite of **May passenger traffic** dipping slightly by 2.5% yoy to 5.08mn passengers at **Dubai** airport as runway work progressed, the airport maintained its status as the top international airport in terms of international passengers for the fifth consecutive month. Dubai welcomed 29.6 million passengers during the first five months of 2014, vis-a-vis Heathrow's reported 28.47 million passengers. Meanwhile, **Abu Dhabi** reported a record-high 27.4% yoy rise in passenger traffic to 1,633,700 passengers this May.
- With the scorching summer heat, **hotel occupancy in Dubai** declined by 0.9% to 82.2% in May; average room rates meanwhile increased 4.6% to USD 301.09, thereby boosting revenue per available room 3.5% to USD 247.61.

### **Media Review**

***The situation in Iraq assessed by a leading security analyst***

<http://www.stratfor.com/weekly/sunni-ramadan-offensive-and-lessons-tet?>

***HSBC global forecasts abandon the optimistic bias***

<http://www.bloomberg.com/news/2014-07-01/admitting-problem-is-first-step-as-hsbc-ditches-optimism-bias-.html>

***China proposes a new Development Bank for Asia, including the Middle East***

<http://www.ft.com/intl/cms/s/0/b1012282-fba4-11e3-aa19-00144feab7de.html?>

***The Fed is not just the US central bank; it is the world's central bank***

<http://www.project-syndicate.org/commentary/j-bradford-delong->



[argues-that-the-us-will-face-a-dangerous-world-unless-the-federal-reserve-fulfills-its-global-role](#)

*The odds of re-election are larger for reformist than for non-reformist governments*

<http://www.voxeu.org/article/reform-and-be-re-elected>

*In the spirit of the World Cup, some amazing stats on "Messi Magic"*

[http://fivethirtyeight.com/features/lionel-messi-is-impossible](http://fivethirtyeight.com/features/lionel-messi-is-impossible/)  
/

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