

# Weekly Economic Commentary – Jul 20, 2014

## Markets

Early in the week data from China and the testimony by Yellen gave a lift to global stock markets but the new escalation of the Ukrainian crisis due to the missile attack that strike a Malaysian civil airliner sent global shares into a tailspin. The S&P 500 suffered its worst decline since April 10, while European fell heavily on Thursday. On Friday the storm had subsided and most markets ended the week on a positive note thanks to a late-day surge on Friday. Regional markets also closed mostly with a plus sign except Kuwait. The euro dipped below USD1.35 for first time since February. Oil prices stabilized after the losses of last week and gold prices despite the tensions in Eastern Europe and in Gaza lost ground.

## Global Developments

### **US/Americas:**

- **US retail sales** rose by a less-than-expected 0.2% mom in Jun – the slowest pace in five months – following an upwardly revised gain of 0.5% in May and 0.6% in Apr. Auto sales were the main drag, shrinking -0.3%. Core sales rose 0.6% following an upwardly revised 0.2% in May.
- The **US Fed Beige Book** reported “moderate” to “modest growth”. Overall retail sales grew modestly in most Districts, as in the previous reporting period. Home home prices went up, but demand was uninspiring. Nonfinancial services activity continued to strengthen compared to the previous survey period, with all Districts reporting steady or higher growth. The labour

market is gradually improving.

- **US industrial production** rose 0.1% mom in Jun after gaining 0.4% mom in May. Output rose 6.7% qoq in Q2 – the strongest rise in more than two years.
- The US Conference Board's **leading economic index** rose by a less than expected 0.3% mom in Jun but followed an upwardly revised 0.7% gain in May and a led up to 6 months of broad based gains.
- The Thomson Reuters/University of Michigan **consumer sentiment** index fell to 81.3 in Jul from 82.5 in Jun
- **New homes starts** in the US collapsed unexpectedly 9.3 % mom in June.
- **US initial jobless claims** fell more-than-expected by -3,000 to 302,000 last week. The four-week moving average also fell by 3,000 to 309,000.

### Europe:

- The **ZEW German economic sentiment index** unexpectedly fell -2.7 points to 27.1 – the lowest level since Dec '12. Meanwhile, the index of **Eurozone** economic sentiment rose to a less than expected 61.8 from 67.7.
- **Eurozone industrial production** shrank -1.1% mom in May following a 0.7% rise in Apr. Output fell -1.4% in Germany and -1.3% in France – both at the sharpest pace in around a year – and production in Italy dipped -1.2%, the most in 21 months.
- **UK consumer prices** rose by a more-than-expected 1.9% yoy in Jun from 1.5% yoy in May.

### Asia and Pacific:

- The **BRICS Summit** last week led to an announcement of the creation of the BRICS development bank and a USD 100bn reserve fund, labeled a “Contingency Reserve Arrangement” that promises to help developing nations avoid “short-term liquidity pressures, promote further BRICS cooperation, strengthen the global financial

safety net and complement existing international arrangements”.

- **China's economic expansion** accelerated in Q2 to 7.5% yoy from 7.4% yoy in Q1 after slowing down for three quarters in a row.
- **China Industrial production** rose by a more-than-expected 9.2% yoy in Jun following an 8.8% yoy gain in May.

**Bottom line:** China's economy seems to have regained some traction while the European data continue to disappoint. The attention has been catalyzed by the FED's message and its plan to normalize the economy. Its President Yellen in a Congressional testimony warned about signs of bubbles forming in some markets such as those for leveraged loans and junk corporate bonds, but added that stocks are not overvalued with the exception of smaller firms, social media and biotechnology firms. Anyway, Yellen assured that the Fed was watching carefully for signs of heightened risk-taking, but did not give any hint on interest rates.

### Regional Developments

- The **Central Bank of Egypt unexpectedly raised** overnight lending and deposit **rates by 100bps** to 10.25% and 9.25% respectively, in a preemptive move to contain inflation following the slow reversal of subsidies.
- **Egypt** needs an **investment inflow of USD 120bn in the next 4 years** to reach an average GDP growth of 5%, reported Reuters, citing Western consultants hired by the government to compile an economic reform plan.
- The **National Bank of Egypt plans to issue a dollar-denominated bond** to tap international markets this year and is expected to range between USD 600mn – 1 bn, according to its Chairman. The issuance aims to diversify foreign currency sources and maintain the balance in maturity terms for short-term USD deposits.
- **Egypt's tourism statistics** till the month of May this year reveal increases of 6.3%, 10.8% and 35% in tourists

from Saudi Arabia, Kuwait and the UAE respectively, in spite of a decrease of 26.2% in the overall number of incoming tourists.

- **Iraq expects oil exports to touch 2.6mn** barrels per day **(bpd) in Jul**, up from the dip in exports to 2.423mn bpd last month, according to the Oil minister as current daily production was running at 3.15mn bpd.
- **Jordan's tourism revenues** rose by 13.6% yoy to USD 2.3bn during H1 2014, thanks to rising religious and medical tourism revenues, revealed the Central Bank.
- **Construction sector in Kuwait** is expected to reach USD 17.5bn by the end of 2014 from USD 9.8bn in 2011, according to a recent report by Ventures Middle East.
- **Total tourist spending in Lebanon** dropped by 6% yoy to in H1 2014; declines in spending were across the board – Kuwait (-20%), Saudi Arabia (-19%), Jordan (-17%), Syria and UAE (-12%) and Qatar (-5%).
- There were **4mn mobile subscriptions in Lebanon**: Touch, with 2.1mn subscriptions, accounts for 53% of the market share while Alfa represents 47% share with 1.9mn subscriptions.
- **Oil production in Oman** was up 1.3% yoy to 142.1 mn barrels by end-May 2014, with daily average crude oil production touching 941,100 barrels per day (bpd) compared with 929k bpd during the same period a year ago.
- **Oman Crude Oil Futures** Contract at the Dubai Mercantile Exchange (DME) posted an average daily volume trading growth of over 52% during H1 2014, with 9,143 lots per day (H1 2013: 5993 lots).
- The **total passenger traffic** (including transit & transfer passengers) through **Muscat International Airport** increased by 7% yoy to 4,431,193 passengers in the first 6 months of 2014 compared to 4,122,700 passengers for the same period of 2013.
- **Qatar real estate transactions** in June touched QAR 3.9bn, spread across 627 real estate transactions,

thereby registering QAR 6.3mn average value per deal.

- The **Qatar Financial Centre** Authority has amended its existing **tax regulations** – the new rules provide an opportunity for Qatari-owned entities to elect for a zero tax rate to apply to their operations in the QFC; will also help these companies to invest overseas by introducing advantageous changes to the taxation of structures, for eg. Holding Companies and Special Purpose Companies, established in the QFC.
- **US signed an arms sale agreement with Qatar valued at USD 11bn**, including Apache attack helicopters and Patriot and Javelin air-defense systems – this is the biggest US arms sale so far this year.
- UNCTAD data revealed that **Qatar's outward FDI increased to USD 8.02bn last year** – this represents 14% of gross fixed capital formation (GFCF) and compares to USD 1.8bn or 3.4% of GFCF a year ago.
- **Oil exports from Saudi Arabia** hit 1.38bn barrels in H1 2014, reported the *Al-Riyadh* Arabic daily, citing a local expert; meanwhile, local consumption is estimated at 395mn barrels, or 22% of total production during the same period.
- **Saudi Arabia's** Real Estate Development Fund revealed that it has completed the procedures to **write-off debts** worth SAR 243mn owed by about 1,158 deceased citizens, in line with a directive issued by the King.
- The **Labour Ministry in Saudi Arabia spends** about SAR 14.9bn annually on implementing short- and medium-term labour reform strategies.
- Egypt and UAE each accounted for 20% of the total **private equity investment** in the region in **2013**, followed closely by Lebanon at 18%, as per the 8th annual report of the Mena Private Equity Association. The industry raised USD 744mn funds in 2013, marking a decline of 14% yoy while the average close per fund increased to USD 74mn in 2013 (2012: USD 43mn).

## UAE Focus

- The **UAE** Ministry of Economy has published **new rules** that permits companies to use existing shares when listing on local exchanges or raising fresh equity capital. The Companies Law, which is in the works, has a provision to reduce the minimum free float required in IPOs to 30% from the current 55% on UAE exchanges.
- **DP World** has signed a USD 3bn loan, replacing an existing USD 1bn deal that was due to mature in 2018, reported *Reuters*; unnamed sources revealed that the new five-year facility is split between a USD 2.39bn conventional loan and a USD 610mn sharia-compliant tranche.
- **Inflation in Dubai reached 2.74% yoy in H1 2014**, as per Dubai Statistics Centre data. This was largely a result of the rise in costs of major groups including housing, water, electricity, gas and fuels at 4.58%, education at 4.43% and food and non-alcoholic drinks at 3.36%.
- **Dubai** Land Department (DLD) clarified that there would be **no hikes in the property registration fees** in Dubai, as was suggested in a recent IMF report. The senior DLD official also stated that the “real estate market is stable and appears very healthy” during an interview with *Al Khaleej*.
- **UAE Central Bank** reported a 48% increase in the **point of sale transactions** in the UAE by value to AED 127bn last year. Debit card purchases were up by 28% in value to AED 17.3bn while credit card transactions were boosted by more than 50% to AED 109.6bn, thanks to low borrowing costs and rising consumer sentiment
- The Dubai Gold and Commodities Exchange (**DGCX**) registered 5.75mn contracts in H1 2014, with a value of over USD 172bn while currency futures traded 5.34mn contracts valued at USD 157bn during the same period.
- **Hotel occupancy in Dubai** was down 5.5% yoy in June to 75%, according to preliminary data released by

STRGlobal. Average daily rate was up marginally by 1.4% to AED 658 and revenue per available room dipped 4.2% to AED 493.68.

### **Media Review**

#### ***The bright future of retail in Oman***

[http://www.zawya.com/story/Retail\\_explosion\\_may\\_lure\\_top\\_brands\\_into\\_Oman-ZAWYA20140713094802/](http://www.zawya.com/story/Retail_explosion_may_lure_top_brands_into_Oman-ZAWYA20140713094802/)

#### ***The global impact of shale gas***

<http://www.ft.com/intl/cms/s/2/601a8476-0b5d-11e4-ae6b-00144feabdc0.html#axzz37em64PS4>

#### ***The fear of a global bubble***

<http://quicktake.content.bloomberg.com/quicktake/watching-bubbles/>

#### ***The BRICS Bank***

<http://www.ft.com/intl/cms/s/0/875d6570-0cc6-11e4-bf1e-00144feabdc0.html>

#### ***UAE's plans for space by 2021, including an unmanned probe to Mars***

<http://www.thenational.ae/uae/technology/uae-makes-plans-to-send-unmanned-probe-to-mars-by-2021>

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