

Weekly Economic Commentary – Aug 10, 2014

Markets

In a week void of key economic data releases, geopolitical tensions are sweeping through financial markets. Equities prices fell globally also on concerns that the bull market has reached a peak. The CBOE VIX, index a gauge of global volatility, touched it's highest in almost four months. However, Regional bourses (with the exception of the UAE) reacted positively, in part due to the effects of geopolitical tensions on the oil price. On the currency front the usual flight to safety took place with the yen benefitting most among the majors. Gold prices also reacted with a rally. Bond yields of countries deemed safe like the US, Japan and Germany took a dive.

Global Developments

US/Americas:

- **US ISM non manufacturing index surged** to 58.7 in Jul, its highest reading since 2005.
- **Initial jobless claims fell** by 14,000 over the past week to 289,000. The four-week moving average fell to its lowest level since February 2006. The overall number of Americans receiving jobless benefits stood at 2.52m, down from a peak of 6.6m in May 2009.
- **US nonfarm business productivity rose** by 2.5% qoq ann in Q2 corroborating the upside momentum of real growth.

Europe:

- **ECB President Draghi warned Italy on the lack of structural reforms** and invited all EU national governments to transfer sovereignty over economic

matters to the European Union to break the stalemate on measures that would reignite growth.

- **Italy's GDP** in Q2 **contracted** -0.2% qoq (-0.3% yoy), after a -0.1% qoq (-0.4% yoy) decrease in Q1 entering a recession for the third time since 2008. Industrial production in Jun, rose a seasonally-adjusted for work days 0.9% mom (0.4% yoy) vs 1.2% mom (-1.7% yoy) in May, thanks to a rebound in manufacturing. However **Italy's PMI inched down** from 52.6 in Jun to 51.9 in Jul, the lowest level in 8 months.
- **German industrial production grew** 0.3% mom in Jun, following a revised -1.7% decrease in May. Even more worryingly manufacturing orders fell -3.2% mom in June, which compounds the -1.6% mom drop in May. Foreign orders were down 4.1% with the sharpest drop due to the Eurozone, where orders fell 10.4%.
- The **manufacturing PMI in Russia increased** from 49.1 in Jun to 51.0 in Jul, which marks the highest print since Oct 2013, despite the military confrontation in Ukraine.
- **UK manufacturing PMI fell** from 57.2 in Jun to 55.4 in Jul, the lowest level in a year, but remains well above the expansion threshold, where it has remained since February 2013.

Asia and Pacific:

- **Official China PMI rose** from 51.0 in Jun to 51.7 in Jul, the highest level since Apr 2012. The PMI is solidly above the 50-point threshold that separates expansion from contraction.
- **China's inflation** was 2.3% yoy in July, the same as in Jun, with the mom figure almost flat at 0.1%.
- **China's exports grew** 14.5% yoy in July versus expectations of 7%, while imports fell -1.6% yoy against an expected +2.6% increase. The **trade surplus reached a record** USD 47.3bn.
- Despite a sharp devaluation **Japan's current account**

recorded a **deficit** in Jun, for the first time since Jan to JPY -Y399bn versus a surplus of Y522.8bn in May.

- **Taiwan inflation** was almost **flat** falling -0.04% mom in Jul vs 0.5% mom in Jun. The subdued reading reflected that lower prices for clothing and footwear and fresh food. In annual terms inflation rose from 1.6% in Jun to 1.8% in July, the highest since Feb 2013.
- **Indonesia GDP grew** 5.1% qoq in Q2, just below the 5.2% qoq increase in Q1, and the weakest growth rate since Q3 2009. The relatively weak result was due to a steep drop in government spending, a moderation in investment and continued sluggishness in exports.

Bottom line: The macro the data of relevance came from China, where the situation is stabilizing and from Italy which experienced a triple dip in the first half of 2014 and threatens to bring down the fragile recovery in the European Union, where even Germany is showing signs of retrenchment. Draghi's warning means that **the ECB ultra accommodative monetary policy cannot continue to maintain afloat the Eurozone, in the absence of decisive actions & structural reforms by governments.**

Regional Developments

- The **World Bank approved** a USD 500mn **loan to Egypt**, funding a project aimed at providing natural gas to houses – about 1.5 million families are likely to benefit from this project. While a grace period of 8 years is given for the loan, it is expected to be paid back in over 28 years' time, effectively a full grant.
- **Jordan's** government announced that it has **scrapped plans to construct four renewable energy power plants** with a total capacity of 100 megawatts each after it was unable to secure funding (even from the GCC, which said supporting a project to expand the grid's capacity is not on this year's agenda).
- More **aid for Jordan from US** which announced its

intention to provide USD 84mn in additional funds – USD 57mn from the USAID’s Food for Peace and USD 27mn from the State Department’s Bureau of Population, Refugees and Migration – to host Syrian refugees; this is part of USD 378mn in new funding for those affected throughout the region by the war in Syria.

- Following the release of its Article IV report for **Lebanon**, the **IMF** called to rein in the nation’s budget deficit by raising electricity tariffs and freezing the implementation of the proposed salary scale. The IMF also urged Lebanon to undertake revenue-enhancing measures including “broadening the tax base and strengthening collection, while ensuring that they are equitable and minimize distortions”.
- **Oman’s exports declined** 7.9% yoy to OMR 5.14bn by end of Q1, largely due to a 9.3% dip in oil and gas exports; non-oil exports, however, grew by 23.4% to OMR 1.01bn during this period.
- **Inflation in Oman** was recorded at 1.2% yoy (and -0.07% mom) in June – with prices of food and beverages up 2.2% alongside a 6.24% rise in education costs while prices for housing, water, electricity, gas and other fuels was up by 1.26%.
- In its latest move to **reform Qatar’s financial markets**, the Emir issued a Law permitting **foreign investors to own up to 49%** of listed companies. Additionally, it was revealed that GCC citizens would be treated as Qatari citizens for the purpose of owning firms listed on the exchange.
- **Qatar’s international reserves** touched USD 42.2bn and import cover stood at 7.9 months at end-June, according to QNB. Meanwhile current account balance stood at USD 17.2bn as of Q1.
- **Qatar’s real GDP growth** is estimated to increase to 6.9% in 2015 from 6.7% in 2014, thanks to strong public investment spending, according to the latest report from Samba.

- **PMI in Saudi Arabia increased** to 60.1 in Jul (Jun: 59.2) – its highest level since Sep 2012. **Output grew at its steepest rate** since Feb 2012 and new order growth rose at the fastest pace in 10 months.
- The **Saudi Labour Ministry** has asked the government to spend about SAR 14.9bn annually on labour market reforms and for steps to move Saudi citizens into private sector jobs. This was revealed in the Ministry's annual report, which highlighted reforms including quotas for companies to hire Saudi nationals, levies on firms which employ large numbers of foreigners, and training and unemployment benefits schemes.
- **Deposits in Saudi banks** hit a record level of nearly SAR 1.5 trillion by the end of June, reported the *Al Eqtisadiyah* daily.
- **Saudi Arabia's** Public Pension Agency reported an 8.1% return on its investments in 2013, down from 9.8% in 2012, while the return on its investments in the Saudi stock market was 25.7%.
- Data from **IATA** revealed a 10.8% rise in **passenger demand among Middle East carriers** in June – the largest increase for any region. Additionally, the carriers recorded a 13.9% surge in passenger demand in H1 2014.

UAE Focus

- **Headline PMI** in the **UAE fell** to 58 in July, a tad below June's 58.2; there was a sharp rise in output, thanks to a pickup in new orders and new export orders though the rates of expansion were slower.
- **Dubai's Amlak** revealed that all its creditors had approved a plan to restructure its debt – estimated at around USD 2.7bn; the firm is expected to make an initial repayment of AED 2bn or roughly USD 545mn, with the remaining debt to be paid over 12-year period.
- **SMEs** account for 95% of **total enterprise** population in Dubai and these employ about 42% of the emirate's **total**

workforce, according to a new report released by the Dubai Economic Council. The report also highlighted the lack of an adequate security regime as a major reason for the lack of bank lending to the SME sector.

- The number of **Dubai residence visas** issued by the General Directorate of Residency and Foreigners Affairs were up 30% yoy to 570,917 new residency visas in H1 2014. Data also revealed an 8.14% increase in passengers entering and exiting the UAE during the same period.

Media Review

The bull run is running out of steam

<http://www.ft.com/intl/cms/s/0/9db1afa4-1efd-11e4-9d7d-00144feabdc0.html?>

Groundhog day for the global economy

<http://www.project-syndicate.org/commentary/ashoka-mody-on-why-the-imf-s-growth-forecasts-keep-getting-it-wrong#xtor>

The US intervene in Iraq for the fourth time

<http://www.ft.com/intl/cms/s/0/3e33be2c-1fd5-11e4-9649-00144feabdc0.html?>

The impact of internet on the middle class

<http://www.project-syndicate.org/commentary/j-bradford-delong-assesses-the-ict-revolution-s-ongoing-impact-on-the-middle-class>

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