

# Weekly Economic Commentary – Aug 17, 2014

## Markets

In the midsummer week illiquid markets were torn between the dismal GDP figures from the euro area, the geopolitical tensions in Iraq, Gaza and Ukraine and the expectations that central banks will leave interest rates near record lows for longer, overshadowing the escalation of violence. Anyway the week ended with most stock markets in positive territory, despite a sell off on Friday, and regional markets (except Bahrain) followed the general trend. Major currencies pairs were rather stable, but the won got a boost from the central bank interest rate cut. German 10-year government bond yield dips below 1% for the first time ever. Security tensions lifted oil prices at the end of the week from a 13-month low, but the market remains soft. The International Energy Agency however described the energy markets as “eerily calm in the face of mounting geopolitical risks”.

## Global Developments

### **US/Americas:**

- **US retail sales** were almost unchanged mom in Jul but increased 3.7% yoy down from 4.3% in Jun and the weakest growth since February. Auto sales fell as expected, and non-auto sales were up 0.1%. The only strong was miscellaneous retailers.
- **US initial jobless claims** rose 21,000 to 311,000, erasing the prior week's 13,000 decline, but is only the second increase in the past six weeks. The four-week moving average rose from 293,750 to 295,750. A sub-300,000 four-week moving average has been rare since 2000. Continuing claims rose 25,000 to 2.544 million

following the prior week's 23,000 increase.

- **US Industrial production** rose 0.4% mom in Jul, on par with Jun upwardly revised gain. Manufacturing output jumped 1% mom, the most since February boosted by a 10.1% rise in auto production. Production in the rest of manufacturing rose 0.4%.
- **University of Michigan consumer sentiment** fell further in Aug by 2.6 points to 79.2, its lowest since Nov. Expectations for next year dropped to their lowest since Oct.

### Europe:

- **The euro zone's GDP growth** was flat qoq in Q1 after 0.2% in Q1. Among the euro zone economies, **GDP in Germany** contracted -0.2% qoq in Q2 but was up 0.8% yoy due mainly to a halt in construction and higher imports. It's the first qoq drop for more than a year. **France GDP** stalled again in Q2 as it did in Q1. Portugal and Spain defied the gloom, expanding 0.6% qoq
- **Euro zone inflation** eased to 0.4% yoy in Jul from 0.5% in Jun, thanks to low energy and food prices.
- **German inflation** was flat mom in July (0.8% yoy) from 0.3% mom (0.9% yoy) in Jun.
- **The ZEW analysts confidence index in Germany** sunk in Aug to 8.6 from 27.1 in Jul, while the ZEW indicator for the current situation declined to 44.3 from 61.8.
- **Eurozone industrial production** fell -0.3% mom (flat in yoy terms) in Jun, following a -1.1% decrease (+0.6% yoy) in May.
- **ZEW analysts index for the euro zone** fell sharply to 23.7 in August from 48.1 in July.
- **The UK unemployment rate** for Q2 fell to 6.4% from a five-year low of 6.5% in Q1.

### Asia and Pacific:

- **Japan's GDP tumbled -6.8% qoq** ann in Q2 from 6.1% qoq

ann in Q1. These sharp oscillations were due to anticipated purchases of durable goods to avoid the VAT increase in April, but overall growth in the first half of the year is negative, casting additional doubts on the stimulus program dubbed Abenomics.

- **Consumer confidence in Japan** improved slightly in Jul to 41.5 from 41.1 in Jun. The income reading improved but willingness to buy durable goods was unchanged.
- **Japan's machinery orders** rose 8.8% mom in Jun against expectations of 15.3%. This follows a -19.5% plunge in May and -9.1% in Apr.
- **Chinese industrial production** growth in Jul remained at 9% yoy, the same as in Jun, due in part to base effects but also a sluggish domestic economy's recovery. A credit-led rebound in investment helped offset the housing slowdown, but risks remain on the downside.
- **Chinese money supply** growth slowed sharply in July, rising 13.5% yoy, well below the Jun figure. Loan growth also dropped.
- **Chinese retail trade** growth was almost unchanged in July to 12.2% yoy, from 12.4% in Jun. Food, construction materials and petroleum sales were the main drag.
- In **China power consumption** rose only 3.0% yoy in July, down from June's 5.9%, marking the lowest level of growth in 16 months. In the key Shanghai region electricity consumption dropped -10% yoy, and as much as 22% elsewhere.
- **Hong Kong's GDP** contracted -0.1% qoq in Q2 (+1.8% yoy) down from +0.3% in Q1. Foreign trade recovered on the back of stronger global growth, but slower house price gains, declines in equities, and inflation curbed private consumption.
- Malaysia's growth pace crawled up to 6.5% yoy in Q2 from 6.2% in Q1. Manufacturing exports were lifted by global demand for electronics products, while domestic demand was sustained by low unemployment and a buoyant housing market.

- **Bank of Korea** lowered its rate rate by 25bp to 2.25% for the first time in 15 months to prop up an economy affected by China's malaise.
- **India's wholesale price inflation** slowed to 5.2% yoy in Jul compared to 5.4% in Jun on the back of lower petrol and diesel prices.

□ **Bottom line:** The GDP numbers in the largest eurozone economies smashed expectations of a solid recovery and highlighted that decisive action to implement structural reforms in product and labour markets invoked by the ECB and all other international observers cannot be delayed further. At global level growth is stalling as well: the OECD composite leading indicator in June was at 100.5 for the eighth consecutive month. Meanwhile in China despite official statistics portray a stabilization of growth, power consumption growth shows that reality might be less cheerful.

### Regional Developments

- **Egypt's urban consumer inflation** picked up to 10.6% in July (Jun: 8.2%), as the rise in fuel prices took effect, while core inflation rose to 9.35% (Jun: 8.76%).
- **Bilateral trade between Saudi Arabia and Egypt** reached SAR 117.5bn in the past 10 years 2004-13, reported the *Al Eqtisadiyah* daily.
- **Jordan's government subsidies** on various goods amounted to JOD 2.2bn in 2013 – this amounts to 9.2% of GDP and 36.4% of overall government spending. Separately, **inflation** remained unchanged at 3.2% in July.
- **Kuwait** reported 7.4% yoy growth in money supply M2 in Jun (May: 6.1%), the slowest rate since Nov 2012, while private lending by banks grew 7% (6.2%), the slowest since last Sep. Meanwhile **inflation** rate held steady at 2.9% in Jul, with food prices continuing to dip, registering 0.3% mom decline last month.
- **Oman received about 2.1mn visitors last year**, up 7.8%

yoy, according to official statistics. According to a report released by the World Travel and Tourism Council earlier this year, the sector's direct contribution stood at USD 2.5bn or 3% of GDP in 2013.

- **Oman's logistics industry** had revenues of USD 7.87bn in 2013 and is estimated to reach USD 12.02bn in 2017 thanks to planned investments in logistics infrastructure and industrial development, according to a recent Frost & Sullivan report.
- **Oman** government's **subsidy to the power sector** touched a record OMR 310 mn last year, due to the rapid growth in the commercial and residential consumer segments, as well as the rollout of new power schemes. The subsidy per customer grew to OMR 361 in 2013 (2012: OMR 302), while the subsidy per unit of electricity increased to OMR 13.7 per megawatt-hour in 2013 (2012: OMR 11.4 per megawatt-hour).
- A marginal 0.5% growth in **Oman's** government revenue resulted in a **budget surplus** of OMR 582.9mn in the first five months of 2014 against a deficit of OMR 110.4mn during the same period a year ago.
- Rents, furniture and cloth prices drove up **Qatar's inflation** to 3.1% yoy (and 0.3% mom) in July.
- **Saudi Arabia exported** 1.6 billion barrels of **oil** worth SAR 657bn during the first seven months of this year while 23% of its total oil production was used for **local consumption**, according a recent economic report.
- **Saudi Arabia** is expected to exceed SAR 1.17 trillion in **budget surpluses** this year and could reach up to 3.5% of GDP, according to a report by Jadwa Investments – this is SAR 315bn more than the budget projections.
- **GCC's seven IPOs in Q2**, and compares to two in the previous quarter, reports PwC, indicating a rise in market confidence. The total value of Q2's IPOs showed a 5% qoq dip to USD 902mn while H1's 9 IPOs, which raised USD 1.86bn, showed an 80% increase in volume and 381% jump in value. Separately, noteworthy **Q2 debt market**

**issuances** included, on the corporate front, Commercial Bank's USD 750mn bond, Bahrain's Gulf International Bank (USD 533mn), UAE's DP World (USD 1bn) and Etisalat (one USD 500mn bond and two USD1.6bn bonds) while on the sovereign front, Qatar Central Bank issued three government bonds.

- The **halal food market** grew to a USD 1.1 trillion industry in 2013 and is expected to rise to USD 1.6trn by 2018, states a recent Dubai Chamber report; it also states that the halal food and beverage market accounted for 16.6% of the global food and beverage market in 2012 while the UAE halal food consumption market was valued at around USD 20bn.

### UAE Focus

- **UAE's Al Etihad Credit Bureau** will issue consumer credit reports to financial institutions from Sep this year based on the past six months' submitted information; this report will include records about consumers' debt levels, financial obligations, credit payments, history of default payments and late payments.
- **Dubai's inflation** rose 0.46% yoy in July on rise in prices of alcoholic beverages and tobacco (5.32%), housing, water, electricity, gas and fuel (1.15%) and communications (0.85%).
- **Dubai real estate transactions** reached AED 19bn during the first seven months of this year, with bulk of the investments (about AED 12.568bn from 2513 transactions) coming from UAE nationals – who spent almost double that of the rest of GCC residents. Saudi citizens, who invested AED 3.37bn, came in second followed by the Qataris (AED 1.463bn) and Kuwaitis (AED 839mn).
- **Dubai received 10mn visitors in 2013**, up 11% yoy, according to the United Nations World Tourism Organisation and compares to an overall decline of 0.2% for the Middle East region which welcomed 52mn tourists.

Saudi topped the list with 13mn tourists though down 7% yoy while Egypt's visitors fell 18% to 9mn.

- **Trade settlement using yuan** is gaining popularity in the UAE, according to a survey by **HSBC**. As per the responses, 41% of UAE businesses that currently do not trade in yuan plan to start in the future – the greatest proportion plan to do so within the next 1 to 3 years.

### **Media Review**

#### ***GCC stock markets performance since Jan 2104***

<http://fingfx.thomsonreuters.com/2013/06/25/152008c902.htm>

#### ***The role of entrepreneurship in the US economic dynamism***

<http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.28.3.3>

#### ***Shell abandons shale gas***

<http://www.ft.com/intl/cms/s/0/9c5964b4-20db-11e4-890a-00144feabdc0.html>

#### ***On subsidies for energy and food***

<http://www.project-syndicate.org/commentary/jeffrey-frankel-explains-why-it-is-politically-wise-to-remove-price-supports-for-food-and-energy>

#### ***Foreigners mull investments in the Saudi bourse***

<http://www.reuters.com/article/2014/08/14/saudi-stocks-investment-idUSL6N00I21620140814>