

# Weekly Economic Commentary – Aug 31, 2014

## Markets

The S&P 500 continued to rally and closed at a new record making this month's gain the best since Feb. German bond yields which had fallen to new lows on rising geopolitical tensions, edged up on Fri as expectations that the ECB would ease monetary policy faded. The euro hit a 12-month low following the low inflation report while the dollar gained and the Russian ruble hit an all-time low against the dollar on Ukraine tensions. Oil prices registered a monthly fall and gold prices gained.

## Global Developments

### **US/Americas:**

- **US Q2 GDP** grew at a seasonally adjusted annual rate of 4.2% after accounting for inflation (Q1: -2.1%), thanks to stronger household spending on durable goods and higher business spending on new equipment and buildings. Additionally, corporate profits also surged, rising 6% qoq to an annual rate of USD 1.84 trillion.
- **Consumer spending in the US** unexpectedly fell by 0.1% in July (Jun: +0.4%) as savings rose to USD 739.1bn and the saving rate to 5.7% – both the highest since Dec '12. Personal Consumption Expenditure (**PCE**) price index was down 0.1% mom in Jul – the smallest rise since Feb – following a gain of 0.2% the month before, while core PCE inched up by 0.1% (Jun: 0.1%).
- **New home sales** slipped 2.4% to a seasonally adjusted annual rate of 412k units, the lowest level since Mar. Separately, **pending home sales** increased 3.3% to an 11-month high in July.
- **Durable goods orders** posted an increase of 22.6% mom to USD 300.1bn in Jul, thanks to a surge in new orders for

civilian aircraft; excluding aircraft and other transportation equipment, orders fell 0.8% in Jul (June: +3%). Orders for nondefense capital goods excluding aircraft, a key indicator of business investment, climbed 8.3% yoy – the fastest rate of annual increase since Dec.

- **S&P Case-Shiller** home price index declined 0.2% in June on a seasonally adjusted basis – a “sustained slowdown” with all cities showing lower annual rates than the previous month for the first time since Feb ‘08.
- **Initial jobless claims** fell by 1,000 to a seasonally adjusted 298,000 last week with the 4-week moving average at 299,750, a decrease of 1,250 from the previous week’s revised average.
- **Brazil**’s economy slipped into a ‘technical’ recession, with **GDP** falling by 0.6% in Apr-Jun, following a revised -0.2% dip in Q1.

## Europe:

- **German Ifo** dipped for the fourth consecutive month, declining to 106.3 in Aug from 108.0 a month ago, with the business climate for manufacturing hit its lowest level since Jul 2013.
- **EU unemployment rate** held steady at 11.5% in July with a total of 18.4mn people out of work and Spain and Greece posting the highest average unemployment rates at 25%. Meanwhile **German unemployment** unexpectedly rose a seasonally adjusted 2k to 2.901 mn in August with the rate unchanged at 6.7%.
- **Inflation** fell to 0.3% in the **Eurozone** in Aug (Jul: 0.4%), hitting a five-year low; while German annual inflation steady at 0.8%, Spanish CPI came in at minus 0.5%, lower than in July, and Belgian annual inflation fell to its lowest level since Nov 09; this amidst high unemployment makes it highly likely that the ECB moves towards quantitative easing – as signaled by Draghi.

- **Italy Q2 GDP declined**, falling 0.2% qoq following a decline of 0.1%, confirming a triple recession since the Great Financial Crisis; annual GDP growth is unlikely to touch the Treasury's 0.8% forecast for the year.

### **Asia and Pacific:**

- **India's GDP** grew 5.7 % yoy in the three months ended in June, and compares to 4.6% in the previous quarter; growth was supported by a 3.5% expansion in the manufacturing sector while mining was up 2.1%.
- **Industrial production in Singapore** accelerated 3.3% in July, thanks to a pickup in the biomedical cluster which rose 28.5% yoy; excluding biomedical manufacturing, output fell 2.2%.
- **Japan's industrial production** was up 0.2% mom in July while core inflation rose 3.3%, but when excluding the effect of the April tax hike core inflation stood at 1.3% in July. Household spending fell 5.9% while retail sales rose 0.5% yoy (June: -0.6%) up for the first time since the tax increase.

**Bottom line:** Data releases showed weak consumer spending in the US while the situation remains grim in EU – with low inflation and low growth amidst stable but high unemployment rates. Among the emerging markets, Brazil has entered a recession while there is some respite for India where GDP grew at the fastest pace in 9 quarters, benefiting the Modi government.

### **Regional Developments**

- **Bahrain's Bourse** is in the process of launching the Bahrain Investment Market, catering towards SMEs that are looking for growth capital and do not want to go the IPO route given high costs. It will be mandatory for these companies to have stringent accounting and reporting standards based on IFRS SME standards.
- The **EU** approved a EUR 50mn **grant** for the **Egyptian Social**

**Fund for Development** for boosting employment and vocational training opportunities.

- **Qatar** is requesting the return of its USD3bn deposit from the Central Bank of **Egypt**, according to sources familiar with the matter; it is likely that the central bank is prepared to pay the deposit value in two installments in Oct and Nov hence driving down reserves.
- **Jordan's public debt** crossed JOD 20bn by the end of June, with the public debt to GDP ratio estimated at 78.5% compared to last year's 80.1%. Meanwhile, external debt went up by JOD 1.15bn during H1 to exceed JOD 8.3bn while its ratio rose to 32.8% from 30.3% in 2013.
- According to the World Bank, **cost of sending remittances** from US to **Lebanon** reached 10.19% in Q2 2014 for a \$200 transfer (Q1: 10.81%; Q4 2013: 10.72%).
- **Oman's GDP** grew 4.6% in Q1 while annual average inflation was 1.1% in H1, according to a recent Central Bank report; the report also found that the promotion of SMEs by the government and the Central Bank led to employment generation and creation of a supply chain for the industrial sector.
- **Bilateral trade between Oman and Korea** surpassed USD 5.3bn in 2013, after crossing the 1 billion mark in 1989, with major sectors being energy and construction; it was revealed that by end-2013, over 100 Korean investment projects had taken place in Oman.
- **Qatar** posted a 1% yoy increase in **trade surplus** to QAR 33.2bn in Jul, with exports up 0.6% despite double-digit rise in shipments to Qatar's major export destinations, especially Asian countries. Japan accounted for 26% of total exports in July, followed by South Korea 16%, India 12%, Singapore 7% and UAE 5%.
- Only qualified institutional foreign investors (QFIs) can enter **Saudi's Tadawul** initially, according to NCB's latest Saudi Economic Review. Given the aim to attract long-term investors, the CMA also states that QFI must have assets under management worth a minimum of USD 5bn

with a possible waiver to a minimum of USD 3bn. The current bylaws on foreign traders will also be imposed on QFIs such as the inability to own in Makkah or Madinah based companies.

- **Saudi Arabia's imports** fell 8.2% yoy in June, registering the eighth drop in a row, while non-oil exports rose 14.9%; non-oil exports accounted for around 12% of overall exports.
- A plan for a 5-day work week for **Saudi Arabia's** private sector has been scrapped after negative feedback from businesses and investors.
- The **GCC diplomatic row** continues, with “real difficulties” emerging and “situation likely to escalate”, according to unnamed sources. Separately, Saudi officials last week visited Qatari Emir Sheikh Tamim bin Hamad Al-Thani and Bahrain's King Hamad bin Isa Al-Khalifa as part of efforts to strengthen GCC ties and join forces to confront terrorism.

### **UAE Focus**

- **UAE's** authorities have **reduced the costs of getting a property visa** by 45%, making it easier for foreign investors to stay in the country. The conditions for the visa remain the same – property valuation needs to be above AED 1mn, the owner requires an income of AED 10,000 per month and the property has to be ready for occupancy among others.
- **DP World** reported a 26% rise in net profit to USD 332mn in H1, with revenues up to USD 1.66bn from USD 1.51 during the same period a year ago. The company had signed a USD 3bn loan deal last month, improving terms on its debt and raising funds for expansion.
- **Hotel occupancy in the UAE** fell 7.9% to 46% in July as demand dipped in the summer month, according to STR Global, while the average daily rate increased 4.2% yoy to AED 544.

- **Dubai's** Department of Tourism and Commerce Marketing revealed that the emirate's **hotels** had **received more than 5.8mn visitors during H1** 2014, up from about 5.5mn received during H1 last year. Totaling a revenue of AED 12.74bn, this represented an increase of 10.9% yoy. Saudi Arabia continued to be Dubai's top source market, followed by India, UK, US, Russia, China, Iran, Oman, Kuwait and Germany.
- The first two weeks of **Dubai Summer Surprises** saw a **39% increase in retail sales** compared to the same period last year while footfall in the 27 participating malls rose by 10%, reported Dubai Festivals and Retail Establishment.

### **Media Review**

#### ***The week's 14 most important economic charts***

<http://qz.com/257793/the-weeks-14-most-important-economic-charts/>

#### ***The Greater Depression***

<http://www.project-syndicate.org/commentary/j-bradford-delong-argues-that-it-is-time-to-call-what-is-happening-in-europe-and-the-us-by-its-true-name>

#### ***US workers kicked off Labor Day weekend with some depressing charts***

<http://qz.com/257222/us-workers-kick-off-labor-day-weekend-with-some-depressing-charts/>

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