

Weekly Economic Commentary – Apr 5, 2015

Markets

US stock markets are torn between asset prices that are moving beyond what the improving fundamentals would justify and the expectation of tighter monetary policy. These opposing forces result in see-saw trading sessions: last week the fluctuations on Wall Street ended on the positive side. European stocks on the other hand are propelled by the expectations of QE effects. Emerging markets benefited from expectations that US monetary policy will be on hold after weak job market data and stimulus measures in China. On the other side regional markets were mixed with Saudi still hit by the impact of military intervention in Yemen, but UAE rallying on expectations that the deal with Iran could multiply the nearly Dh100 billion in trade between the two countries. Euro gained some ground despite Greece's funding concerns and the divergence in monetary policy on the two sides of the Atlantic. The yen remained stable against the dollar while China's Yuan recorded its biggest monthly advance in March since December 2011 as policy makers stepped up efforts to make it a global reserve currency and took measures to boost the property market. The oil price, after starting the week on a positive note took a blow when the agreement on the Iran nuclear program was announced hence ending the week with minimal losses. Gold on the other side regained the ground over 1200 USD/ounce.

Global Developments

US/Americas:

- **US non-farm payroll** disappointed expectations with only 126,000 jobs created in Mar, but the unemployment rate remained unchanged at 5.5 %. Jan and Feb figures were

revised downward by a total of 69,000.

- **US initial claims** for unemployment insurance benefits were noticeably better than expected, dropping 20,000 to 268,000. The four-week moving average fell from 300,220 to 285,500.
- **US ISM index** fell from 52.9 in Feb to 51.5 in Mar its slowest rate since 2013, due to weak global demand and the USD appreciation.
- **The S&P/Case-Shiller home price index** rose more than expected in Jan. The 10-city composite index was up 4.4% yoy in Jan, compared with 4.3% yoy in Dec. The 20-city composite index rose 4.6% yoy in Jan, compared with 4.5% yoy in Dec. **US pending home sales index** increased by 3.1% mom sa moving the index to 106.9 in Feb, Potential home sales are up approximately 12% yoy.
- **US Conference Board Consumer Confidence** crawled up 2.5 points in Mar, offsetting half of the 5-point decline in Feb.
- **US orders for manufactured goods** increased 0.2% mom in Feb, Durable goods orders fell 1.4% mom, consistent with the previously released advanced report. Nondurable goods increased by 1.8%.
- **US personal income** increased by 0.4% mom in Feb, the same as the Jan figure; spending rose by 0.1% mom in Feb for the first time in 3 months.
- **US crude oil inventories** added 4.8 mn barrels. Total petroleum products supplied to the market, a proxy for U.S. oil demand, averaged 19.1 ml barrels per day in the four-weeks ending Mar 27, i.e. 2.7% above the yoy level.

Europe:

- **Greece** has sent **additional details on its proposed reforms** to EU and International Monetary Fund lenders but the two sides remain at loggerheads on the issues of pension and labor reforms. The measures aim to raise as much as EUR 6 bn in 2015. It is the last ditch effort to

unlock EUR 7.2 bn in aid funds before Greece falls into bankruptcy.

- The **euro zone's economic sentiment** indicator jumped in Mar to 103.9, its highest value since mid-2011, from an upwardly revised 102.3 in Feb.
- **The Eurozone CPI** fell -0.1% yoy in Mar, following a -0.3% drop in Feb and attenuating worries over deflation.
- The **Conference Board leading economic index** for the **Eurozone** rose to 104.7 in Feb from a revised 104 in Jan.
- The **Eurozone's unemployment rate** in Feb was 11.3%, down -0.1% from the upwardly revised number (11.2%) in Jan. Among the individual countries **Germany's unemployment rate** fell to 6.4% in Mar from 6.5% in Feb. However, **Italy's unemployment rate** rose to 12.7% in Feb from 12.6% in Jan, reversing previous improvements.
- The **U.K. consumer confidence** index rose to 4 in Mar, from 1 in Feb. Also, **Italy's consumer confidence** jumped to 110.9 in Mar from a revised 107.7 in Feb. **Spain's business confidence** index remained unchanged at -5 in Feb. **Italy's manufacturing confidence** rose to 103.7 in Mar after Feb's 100.5, in line with improving sentiment in the euro zone.
- **German retail sales** decreased -0.5% mom in Feb, following a revised 2.3% rise in Jan. On other hand, Spain's retail sales climbed 1.8% yoy in Feb, following a 2.9% rise in Jan. **French household consumption** increased 0.1% mom in Feb, following a 0.7% rise in Jan.
- **Russia's GDP** expanded 0.4% yoy after a revised 0.9% yoy gain in Q3. Full-year GDP rose 0.6% in 2014. This data were recorded before the economy was fully hit by the currency crisis.

Asia and Pacific:

- **China central bank** stepped up its support for real estate, cutting the minimum down payment required on

second homes to 40%, from 50-60% in most cities and 70% in Beijing and Shanghai.

- **Japanese manufacturing PMI** was 50.3 in Mar vis à vis 51.6 in Feb, as domestic orders contracted for the first time in almost a year.
- **Japan's industrial production** slumped by -3.4% mom in Feb after a strong 3.7% increase in Jan, mainly due to factories shutting down for the Lunar New Year.
- **Singapore's manufacturing PMI** decreased to 49.60 in Mar down from 49.70 back in Feb. On the other hand, **India's** Manufacturing PMI increased to 52.10 up from Feb's 51.20.
- **Australian AIG manufacturing PMI** increased to 46.30 in March from 45.41 in Feb, the 4th consecutive month of contraction, which point at a slowdown in the economy.
- **South Korea's inflation** cooled to 0.4% yoy in Mar, from Feb's 0.5%. **Korean monthly trade surplus** widened to USD 8.4 bn in Mar from USD 7.7 bn, thanks to the sharp decline in oil prices.
- **Korean industrial production** plunged -4.7% yoy in Feb vs Jan's 1.7% rise as Korean firms lost competitiveness to China and Japan.

Bottom line: The US picture is becoming increasingly cloudy now that the job market has slowed unexpectedly and raises concern about the only cylinder of the global economy engine which seemed to fire. Elsewhere the situation remains uncertain with China trying to revive the property market whose past excesses have been a major cause of financial fragility and Europe where the Greek tragedy is entering another of its countless "decisive" weeks.

Regional Developments

- The **Central Bank of Bahrain** has launched an Islamic liquidity facility for commercial banks to deposit excess reserves with the central bank. The Wakalah is the instrument chosen due to its effectiveness as a

short-term liquidity management tool.

- About USD 15mn from the World Bank's USD 100mn loan has been allocated towards financing **entrepreneurship** projects, revealed **Egypt's** Social Fund for Development's general secretary.
- **Reforms starting paying off: Fuel subsidy bill** in H1 of **Egypt's** fiscal year declined to EGP 44.8bn from EGP 64.5bn a year ago, thanks to the cut in fuel subsidies.
- **Egypt's Suez Canal revenues** touched EGP 27.8bn in the first eight months of the ongoing fiscal year; revenues are estimated to cross EGP 40bn during the full year.
- **Trading of bonds** on the **Egyptian** exchange will be tabled at a cabinet level economic committee and discussed in the coming weeks, according to the country's investment minister.
- A White House statement disclosed that Obama will request the Congress to grant USD 1.3bn per year in **military aid for Egypt**; also included was a plan to lift the holds on aircraft, missiles and tanks for Cairo in place since Oct 2013.
- **Egypt** is expected **to join** the China-led **Asian Infrastructure Investment Bank**, disclosed China's Ministry of Finance. If the application process goes smoothly, Egypt will become a member by Apr 14 along with Saudi, the only other Arab country..
- **Dubai FDI** in **Iraq's** Kurdistan stood at USD 3.5bn, as per Kurdistan's Minister of Municipality and Tourism, with Emaar and Meydan the biggest investors in terms of value. Turkey and Lebanon are other major investors in the region.
- **Iraq's oil exports** rose to a record high 2.98mn barrels per day (bpd) in Mar from 2.597mn bpd in the month before. The month's shipments generated USD 4.457bn in revenue.
- **Jordan's GDP** growth was reported at 3.1% in 2014, by the Department of Statistics, and compares to a growth of 2.8% registered the year before.

- **Jordan**'s PM requested an estimated **funding** of about USD 3bn towards the financing of the Jordan Response Plan 2015 for the **Syrian crisis**. In 2014, the country received a total of USD 854mn, which accounted for only 38% of the required funds.
- The **US** transferred a total of USD 57mn – the second and last tranche of the 2014 USD 184mn **financial grant** to support **Jordan**'s state budget – to the Treasury, as per the Ministry of Planning and International cooperation.
- **Kuwait** revealed its decision to **donate** USD 500mn towards **easing Syria's humanitarian crisis** at a UN summit last week.
- A campaign to crackdown on **tobacco smuggling** in **Lebanon** could add about USD 200mn to the coffers, according to the country's Finance Minister.
- **Lebanon**'s central bank governor revealed that the Capital Market Authority would issue licenses for the launch of **online stock and currency trading**. This electronic exchange can be run from the Beirut Stock Exchange if the government privatizes the bourse according to the law and if not, it would be independent and potentially owned and run by the private sector.
- **Oman** authorities have strongly ruled out that any **future projects or exploration in oil and gas** might be cancelled, delayed or postponed.
- **DME** announced oil futures traded on the exchange reached 8 million contracts (equivalent to 8 billion barrels) in Mar, despite the difficult conditions on global oil markets.
- Additional talks are needed to progress on a deal between **Oman and Iran** signed in 2013 to import gas via a subsea Gulf pipeline link.
- **Oman Tender Board** awarded contracts worth OMR 96 million mainly on railways, roads and healthcare.
- **Omani non-oil exports** grew 7.3% to R0 3.7 bn in the last 11 months of 2014, compared to R0 3,5 bn in the corresponding period of 2013.

- A new draft code of **corporate governance** was presented by the **Omani** Capital Market Authority to strengthen transparency, fairness, accountability of listed companies and their boards.
- The IMF's country report on **Qatar** projects growth to rise to 7% this year, while a fiscal deficit is expected by 2016 amidst shrinking external surpluses.
- **Qatar's** stock exchange plans to allow investors to **trade rights to share issues**, though no timeline was provided for its implementation. Tadawul already permits this trading.
- **Saudi Arabia's market regulator** is expected to publish rules governing the opening up of the exchange by end-Apr, revealed a senior Saudi banker.
- The government of **Saudi Arabia** has identified **investment opportunities** worth USD 140bn, disclosed the Deputy Governor of the Saudi Arabian General Investment Authority at a conference in Dubai.
- **Saudi Arabia's tourism sector** will likely provide about 400k jobs within the next five years, according to an official at the Human Resources Development Fund.
- **GCC** nations have agreed to formulate a general framework for introducing value added tax (**VAT**); the framework, to be prepared by a legal team, is expected to be tabled at the May meeting of the GCC Ministers of Finance and Economy, to be held in Qatar.
- According to EY's World **Islamic Banking** Competitiveness report, participation banking assets with commercial banks in Qatar, Indonesia, Saudi Arabia, Malaysia, UAE and Turkey are expected to represent a \$1.8 trillion participation banking industry by 2019.

UAE Focus

- **UAE's** new **Companies Law** has reduced the minimum free float for any company to go public – to 30% from 55% previously – in addition to moving corporate governance

and/or regulation closer to international standards.

- **Foreign direct outflows** from **UAE** hit USD 67bn in 2014, revealed the country's Minister of Economy. He also stated that in 2013 UAE's FDI outflow was valued at 38% of the total world's outflows.
- **UAE** has promised an additional AED 367mn in **humanitarian assistance** to **Syria**; this is in addition to the humanitarian assistance for affected Syrians from 2012 till end-2014 at over AED 1.4bn.
- **Passenger traffic** through **Dubai** airport grew 5.3% yoy to 5.97mn persons in Feb, bringing the yoy passengers to 12.68mn (6.6%).

Media Review

Oil price forecasts diverge widely

<http://blogs.wsj.com/moneybeat/2015/04/01/forecasters-are-finding-oil-hard-to-pin-down/>

Nobel laureate Michael Spencer on whether stocks are overvalued

<https://www.project-syndicate.org/print/stock-market-equities-overvalued-by-michael-spence-2015-03>

Why is the Hormuz Strait critical for oil

<http://seekingalpha.com/article/3037126-oil-the-strait-of-hormuz-and-why-it-is-important?>

The Norwegian SWF discloses its 2014 returns

<http://www.swfinstitute.org/swf-article/worlds-largest-sovereign-wealth-fund-generated-7-6-return-in-2014/>

The war in Yemen and its consequences for the region

<https://www.bbvaresearch.com/en/publicaciones/a-new-scenario-for-proxy-war-yemen/>