

Weekly Economic Commentary – Apr 26, 2015

Markets

Global equity markets enjoyed a strong start of the week after the People's Bank of China lowered the reserve requirement ratio for all banks to 18.5% from 19.5%. Over the rest of the week stocks recouped the previous week's losses and moved into record territory. The S&P 500 and the smaller-cap benchmarks established all-time highs at the end of the week. More notable was the performance of the technology-heavy Nasdaq Composite, which finally managed to defeat the record closing high it established over 15 years ago before the dotcom debacle. The exuberance involved all developed and emerging economies. In our region, Kuwait's and Saudi Arabia's stock market consolidated below technical resistance early on Thurs while Egypt continued a rebound after a bout of heavy profit-taking. Oil prices scored another weekly gain after hitting a one-month high early in the session amid ongoing fighting in Yemen and bearish supply pressure in the US. On foreign exchange markets, the dollar seems to persist in its weak phase as it lost further ground to major crosses. Gold prices slid 2.3% on the week to close at a five-week low.

Global Developments

US/Americas:

- Overall the real estate sector in the US is picking up. **Existing-home sales recorded by the** 20-city composite index is up by 4.6% yoy, in Mar compared with 4.5% in the previous month, whereas new-home sales fell by 11.4% mom in Mar but still up by 19.4% on a yoy base. The monthly purchase-only house price index rose 0.7% mom in Feb (+5.4% yoy).

- **Chicago Fed National Activity Index** decreased to -0.42 in March of 2015 from -0.18 in February of 2015.
- **Initial claims for unemployment benefits** rose 1,000 to 295,000, with the 4-week moving average increasing from 282,750 to 284,500.
- New orders for **durable manufactured goods** increased by 4% in Mar due mainly to nondefense aircraft orders. Transportation orders rose by 13.5% mom so excluding transportation orders fell by -0.2% mom, after -0.4% in Feb.
- The **Conference Board Consumer Confidence Index** rose by 2.5 points in Mar, offsetting half of the 5-point decline in Feb. The result stemmed from brighter expectations, compensating for a slight dip in the current conditions subcomponent.

Europe:

- **Eurozone finance ministers** warned the **Greek government** that aid will be suspended until it agrees a complete economic reform plan.
- **Consumer confidence in the Eurozone** decreased to -4.60 in April of 2015 from -3.70 in March of 2015.
- **The Eurozone's flash composite PMI** decreased slightly to 53.5 in Apr from 54.0 in Mar. Manufacturing PMI decreased to 51.9 of 2015 from 52.2 in Mar.
- **Germany's ZEW indicator** of economic sentiment fell to 53.3 in Apr from 54.8 in Mar, while the ZEW indicator for the current situation jumped to 70.2 from 55.1. The **Zew indicator for the euro area** increased to 64.80 in Apr of 2015 from 62.40 in Mar of 2015.
- **The German Ifo Business Climate Index** rose in Apr to 108.6 from 107.9 in Mar driven by the current situation subindex, while the business expectations sub-index ticked down.
- **French manufacturers' sentiment** was 101 in Apr, 2 points above the previous month.

- **German PPI** fell -1.7% yoy (0.1% mom) in Mar, following a -2.1% drop in Apr. **Spain's PPI** also fell -1.2% yoy in Mar, following a -1.6% decrease in Feb driven by energy and intermediate goods prices confirming that deflationary pressures are ebbing.
- **Spain's new industrial orders** increased 0.4% yoy in Feb after a -0.5% decline in Jan. **Italy's new industrial orders** increased 0.8% mom in Feb, reversing a -3.7% drop in Jan.
- **UK retail sales** index rose 4.2% yoy in Mar, after increasing a revised 5.4% in Feb. **Italy's retail sales** declined -0.2% mom in Feb, reversing the 0.2% increase in Jan.
- The **Bank of England's monetary policy committee** voted unanimously to keep the main refinancing rate on hold at 0.5% and the asset-purchase programme at GBP 375 bn.
- **Germany new-home prices** rose 6.5% yoy in Mar, following a 6.3% gain in the previous month.

Asia and Pacific:

- **South Korea's Q1 GDP** rose 0.8% qoq (+2.4 yoy) from 0.3% in Q4 (+2.7yoy). Consumption and construction drove the result, while the strong currency continue to weigh on exports.
- **Bank of Korea's consumer confidence index** surprised on the upside rising to 104 in Apr, from 101 in Mar as domestic conditions continue to improve.
- **China's flash manufacturing PMI** edged down to one-year low at 49.2 in Apr from 49.6 in Mar.
- **Australia's inflation** rose 0.2% qoq in Q1, unchanged from Q4. Low inflation results from lower fuel and fruit prices.
- **Singapore's industrial production** continued downward trend in Mar increasing 1.2% mom to fall -5.5% yoy in Mar, following a fall of -3.3% in Feb.
- The **manufacturing PMI in Japan** fell to 49.7 in Apr from

50.3 in Mar, falling below the 50 threshold between recession from expansion.

- **Japanese industrial production** plunged -3.4% mom in Feb, following a 3.7% mom increase in Jan. The result is in part due to the Lunar New Year holidays.
- **Japan's Services Activity index** rose 0.3% mom in Feb following a 0.7% gain in Jan. The gains through Q1 point to a mild recovery.
- **Japan** reported a minimal monthly **trade surplus** of JPY 3 mn in Mar, the first time trade balance has been on the positive side since 2012.
- **India's trade deficit** in Mar widened unexpectedly to USD 11.8 bn. The drop in exports was to some extent offset by the fall in imports driven by lower oil prices.
- **Taiwan's industrial production** surprised on the upside and rose 6.5% yoy in Mar, from a revised 3.3% in Feb. Strong demand from US continue to boost manufacturing.

Bottom line: The macro data depict a mixed picture, but very few signs of an uptick in global growth. The most direct threat to stability remains an imminent bankruptcy by Greece, which has run out of cash to pay pensions and salaries. Talks over refinancing are leading to nowhere and a plan B to tackle the fallout of the Grexit is not in sight (at least not officially). A traumatic ending is likely to revamp contagion to peripheral countries.

Regional Developments

- **Bank lending** to the private sector in **Bahrain** fell for the 10th consecutive month, dipping 5.5% yoy in Feb, following a similar drop in Jan. M2 money supply growth meanwhile slowed to 5.5% yoy from 8.5% the month before.
- **Egypt's** central bank governor revealed that a total of USD 6bn had been deposited by Saudi Arabia, UAE and Kuwait last week, with each country giving USD 2bn. He also stated that the interest on the deposits is 2.5% while maturities range from three to five years.

- **Egypt** signed **two loans** worth USD 427mn on the sidelines of the IMF-World Bank spring meetings in Washington: with the OPEC Fund and the World Bank Group in addition to a preliminary agreement with CMI – Marseille Center for Mediterranean Integration.
- World Bank estimates reveal that **remittances** from Qatar into **Egypt** grew from USD 417mn in 2010 to USD 1.03bn in 2014, a surge of 147%. Total remittances from **Qatar** was USD 10bn in 2014, of which Indians accounted for the lion's share (40%).
- **Unemployment** in **Jordan** was 12.9% in Q1, up 0.6% yoy, with male and female unemployment at 11% and 22% respectively.
- **Jordan's trade deficit** fell 16.9% yoy to JOD 1.306bn during the period Jan-Feb, thanks to a 34.8% fall in oil imports.
- **Kuwait's** finance minister revealed that a proposal to introduce **corporate taxes** for local and foreign companies was being studied, though he did not provide any further details. Currently, local companies generally do not pay taxes on income, while foreign firms pay a levy on commercial activities with the rate reaching up to 55%.
- An official from the **Kuwait** Oil Company said that four new **oilfields** had been discovered in the north and west of the country. Kuwait's current output potential is around 3mn barrels per day (bpd), but the country wants to lift this to 4mn bpd by 2020.
- **Remittances** to **Lebanon** increased by 13.2% yoy to USD 8.9bn in 2014 (equivalent to 17.8% of GDP), according to estimates from the World Bank. Lebanon also registered the second-highest growth of remittances among the 15 largest recipients of remittances in developing economies last year.
- **Oman's nominal GDP** rose 4.6% yoy in 2014 to OMR 31.45bn from OMR 30.06bn in 2013, with the financial brokerage services within the services sector posting a healthy

growth of 9.3%.

- **Oman's non-oil exports** recorded a 8.4% yoy growth in 2014 to OMR 4.12bn, versus OMR 3.8bn in 2013. The country reported an overall decline of 16.9% in re-exports, with only UAE and Iran bucking the trend.
- **Tourist inflow** into **Qatar** was up 11% yoy to 841,025 in Q1, with arrivals from the GCC picking up by 16% while arrivals from the Americas, Europe and Asia reported a growth of 17%, 9% and 7% respectively.
- **Saudi Arabia's** National Anti-Corruption Commission president revealed that at least 672 of the 1526 government projects would be delivered late, due to several reasons including failure to properly follow up on project implementation, poor planning and transparency during the design stage, badly prepared project documents and deficiencies in feasibility studies among others.
- The total value of **projects** awarded in the **GCC** grew 9.9% qoq to above USD 40bn in Q1 (largest since Q2 2014, and above the average of the last two years), as per a report from ADCB, which also revealed that while UAE and Saudi Arabia saw a slowdown in projects awarded, these have accelerated in Qatar and Kuwait.
- **Industrial investments** in the **GCC** reached USD 23bn in 2013 and employed about 59.2k workers, from about 232 joint industrial projects, according to Gulf Organisation for Industrial Consulting (GOIC). Joint Gulf ventures constitute about 7.1% of the total joint industrial projects. Data also showed that there were 3,015 joint Gulf-Arab-foreign projects with cumulated investments of about USD 150.8bn and employing around 360k workers.

UAE Focus

- **Inflation** in **UAE** touched 4.3% in Mar (Feb: 3.6%), the highest level since Feb 2009, supported by higher

housing and utility costs (up 9.3% yoy and 2.3% mom). Meanwhile, Abu Dhabi registered an uptick in inflation as well, rising by 1.4% qoq in Q1, and reaching a 6-year high in Mar.

- **UAE's** Securities and Commodities Authority (**SCA**) has approved **amendments** which include the power to: suspend trading in any listed securities in case of exceptional circumstances and prohibit any company, other than a public joint-stock one, from offering any securities for public subscription among others.
- **DP World** plans to raise between USD 750mn – USD 1bn through a **bond issue**, and could announce plans to market the deal to investors as soon as this week, reported Reuters.
- **Passenger traffic** through **Abu Dhabi** airports was up 21.1% yoy to a total of 5,521,110 passengers in Q1 this year.

Media Review

Apple's solar farms in China

<http://www.bloomberg.com/news/articles/2015-04-21/here-s-why-apple-is-building-solar-farms-in-china?>

Private Equity trends in 2014

<http://blog.pitchbook.com/pe-in-2014-visual-breakdown/>

Plan B for Greece or lack thereof

<http://www.bloomberg.com/news/articles/2015-04-25/euro-ministers-alarmed-as-bloc-shuts-down-greece-plan-b>

How low can Bund yields go?

<http://blog.pimco.com/2015/04/24/how-low-can-bund-yields-go/>