

# Weekly Economic Commentary – May 10, 2015

## Markets

Equity markets lately have been influenced primarily by macro data and their influence on the Fed's decisions. Stock market in the largest developed economies recorded solid gains in reaction to Friday's positive US employment report and the Tory victory in the UK. The boost came after bourses had spent much of the week in negative territory in response to Yellen's warning about stock market overvaluation. Meanwhile, average stock market correlation has fallen in Europe as a result of stock picking across the centre and the periphery of the euro area. Emerging markets on the other side were dragged down by uncertain prospects in China and Brazil among other things. The Shanghai bourse suffered its worst week in five years. Large regional markets, in particular UAE and Saudi, were on the back foot because valuations have become overstretched, while others managed to advance. In the currency markets the dollar correction consolidated its course for the third week against major currencies, helped by a strong bounce of the pound. Oil prices were broadly stable after a record for 2015 touched midweek, while gold gave a sign of life in the midst of a downward trend.

## Global Developments

### **US/Americas:**

- **US non-farm payroll** headline numbers came at 223K in Apr, broadly in line with expectations, but there was a 39K downward revision of the Mar number, which turns out to be a dismal 85K. Unemployment rate at 5.4%, looks slightly stronger considering the rise in the participation rate (62.8% vs expected 62.7%). Average

earnings rose just 0.1%.

- **Initial claims for unemployment benefits** ticked up slightly to 265,000, an increase of 3,000. The four-week moving average fell for the sixth week in a row, dropping from 283,750 to 279,500.
- **US trade deficit** expanded to USD 51.37bn, 43% more than in Feb and the biggest such increase nearly two decades. Some of it is due to the catch up of imports after the strikes in West Coast ports, but in any case it will lead to a downward revision in the US GDP growth of about 0.6%. In practice Q1 GDP will turn out to have shrunk by -0.4% qoq ann.
- **The ISM non-manufacturing index** rose unexpectedly from 56.5 in Mar to 57.8 in Apr. Components were overall stronger, which underscores an upbeat start of Q2. New orders rose from 57.8 to 59.2. The employment sub-index rose slightly to 56.7.
- **US crude oil inventories** plunged by 3.9mn barrels smashing expectations of an increase of 1.1mn. Gasoline inventories rose by 400k barrels, against expectations of 590k-barrel increase.
- **US productivity** dropped -1.9% yoy in Q1, slightly up from the -2.1% decline in Q4, due to a combination of more hours worked and a small dip in output. The drop was in line with expectations, but the last time productivity fell two consecutive quarters was in 2006.
- **New orders for manufactured goods** increased 2.1% in Mar. Durable goods orders rose 4.4%, an upward revision of 0.4% from the advance report while non durable goods decreased by 0.3%.

## Europe:

- **The Tory sweeping victory** in the UK gives a resounding mandate to PM Cameron to implement a series of deep reforms of the public sector and towards a business friendly environment, but also paves the way to a

referendum on the EU membership which could exacerbate uncertainty.

- **Greece's main debt** negotiator called on the **EU & IMF** to show their willingness to break an impasse in debt talks, ahead of a crucial meeting of Eurozone finance ministers on Mon. A **senior EU official** said that **Greece** will easily make the upcoming payments to **IMF** even though its liquidity situation is poor.
- **Eurozone PPI deflation** slowed down to -2.3% yoy in Mar from -2.8% yoy in Feb, led by price drops in the energy sector.
- **Eurozone retail sales** fell -0.8% mom (1.6% yoy) in Mar from an increase of 0.1% mom (2.8% yoy) in Feb, a sign that a robust recovery is still not in sight.
- **German industrial production** fell -0.5% mom in Mar, following a 0.2% increase in Feb; **France industrial production** fell -0.3%, following Feb's 0.5% increase; **Italy's industrial production** rose by 0.4% in Mar (Feb: +0.7%); **Spain's industrial production** surged 2.9% yoy in Mar, following a revised 0.9% increase in Feb.
- **UK trade deficit** was GBP 2.8bn in Mar, an improvement over Feb's GBP 3.3bn deficit.
- Markit/CIPS **UK services PMI** climbed to an eight-month high of 59.5 in Apr (Mar: 58.9).
- The **UK Halifax house price index** expanded 1.6% mom (8.5% yoy) in Apr following a revised 0.6% (8.1% yoy) rise in Mar.
- **German retail sales** decreased -2.3% mom in Mar, following a revised -0.1% drop in Feb; **German manufacturing orders** rose 0.9% mom (1.9% yoy) in Mar, following a 0.9% mom (1.2%) in Feb.
- **Russian CPI** decelerated to 16.4% yoy (0.5% mom) in Apr from Mar's 16.9% (1.2% mom).

### **Asia and Pacific:**

- **China's central bank** lowered its benchmark rate by 25

basis points to 5.1%, the second time this year, saying the move was aimed at boosting development

- **China's Apr HSBC PMI** for the service sector rose to a 4-month high of 52.9 from 52.3 in Mar the fastest pace of growth this year.
- **China's foreign trade surplus** rose to USD 34.1bn in Apr, mainly due to weakening imports on account of the housing slump and reduced demand for commodities.
- **China's CPI inflation** was 0.2% mom in Apr vs 0.5% in Mar. On a yearly basis it edged up to 1.5% yoy in Apr vs 1.4% in Mar, below market expectations, thereby intensifying concerns about deflationary pressures.
- **China's PPI inflation** remained at to -4.6% yoy in Apr the same figure as in Mar. PPI deflation has lasted more than 3 years.
- **Japan's Markit Services PMI** rose from 48.4 in Mar to 51.3 in Apr.
- The **Reserve Bank of Australia** cut its interest rate by 25bp to 2%, as expected in response to a weakening economy.
- **Indonesia's Q1 GDP** rose 4.7% yoy following a 5% rise in Q4. The growth momentum faltered in anticipation of the government's structural reforms.
- **India's Markit/HSBC services PMI** fell to a 3-month low of 52.4 in Apr from Mar's 53. Growth in India's dominant services industry continues to lose momentum.
- **Taiwan's CPI** surprised on the downside slipping to 0.8% in Apr after falling 0.6% in Mar.

**Bottom line: Overall last week macro data – especially from US, China and Japan – point to a modest pickup in growth, while the picture from the Eurozone remains mixed at best.** The elections in the UK dispelled worries that Labour government would derail the economic uptrend and the steady recovery from the 2008 crisis. More generally looking at stock markets it must be stressed that QE works by intentionally distorting shares prices and influencing investor behavior through

massive liquidity injections. When central banks reverse such policy stance the macro effects might be rather unpleasant. This is the conundrum faced by the US Fed over the next few months. Central banks were successful in reducing market volatilities and correlations, herding investors into stocks. Now in search of further gains investors are accumulating ever-riskier assets at artificially inflated prices. When the policy stance will be tightened global investors will get wary of a downside correction. Some disturbing signs are materializing: in 12 days, German benchmark bonds have plunged wiping out more than 60 years' worth of income; this represents the most severe collapse in total return terms since 1994. Not surprisingly Blackrock and Allianz are recommending clients to shift their holdings into cash.

### Regional Developments

- **Bahrain** real **GDP** grew 4.5% in 2014, with the non-oil sector growing at 4.9% vis-a-vis 3% the year before, construction sector reporting a growth of 12.5% and financial sector up 3.4%.
- **Egypt's foreign currency reserves** rose to USD 20.5bn at end-Apr, thanks to deposits from Saudi Arabia, Kuwait and UAE, from USD 15.3bn the month before.
- **Non-petroleum exports** from **Egypt** dipped 21.5% yoy to EGP 34.5bn in Q1 this year.
- **Tourism** in **Egypt** is on the rise again: Q1 saw about 2.15 million tourists visit the country, recording a growth of 6.9% yoy, while about 12mn is the estimated full-year number based on advance booking data.
- **Iraq's** request for **financial assistance** from the IMF may be met by next week in the form of a Rapid Financing Instrument and most probably a loan amount of roughly USD 800mn.
- **Iran** will start exporting **natural gas supplies to Iraq** before the end of their calendar year (ending 19 Mar 2016), with a transfer of about 5-7mn cubic metres per

day.

- According to a report by **Egyptian** Centre for Economic and Social Rights, the country loses EGP 68bn annually as a result of more than 100 **bilateral investment treaties** that provide tax and other benefits to multinational corporations. This high number of bilateral investment treaties ranks Egypt as first among the Arab countries and fifth in the world.
- **Jordan**'s gross domestic and foreign **debt** increased 1.2% yoy to JOD 20.8bn at end-Feb, bringing the country's debt to 76% of GDP.
- **Tourism** revenue in **Jordan** dipped 11.9% yoy to JOD 642mn in Q1 while number of tourists fell 9.4% to 1.12mn during the same period.
- As per the BLOM **Lebanon Purchasing Managers' Index**, private sector activity contracted to 49 in Apr, albeit at a slower pace compared to Mar's 48.9. New business decreased at the slowest rate in three months, thanks to stabilization of new export orders.
- Cost of sending \$500 in **remittances** from US to **Lebanon** reached 5.29% in Q1 2015, increasing from 5.26% in Q4 2014, according to the World Bank.
- **Oman** could pass soon a new law to regulate the **mining industry**, according to an official at the Ministry of Commerce and Industry.
- The total number of **guests** at **Oman**'s three- to five-star hotels grew 1.4% yoy 210,399 at the end of Feb. Occupancy rates, however, declined 3% to 67.4%. Reports issued by eight companies in tourism and hospitality listed on the MSM showed that cumulative revenues declined to OMR 13.3mn from OMR 13.6mn in the first three months of 2014. Net profits fell by OMR 15k to OMR 3.3mn.
- **Oman** expects to attract 5mn **tourists** by 2030, compared to the 2.1mn visitors last year, according to a senior official from the Ministry of Tourism.
- Total deposits held with **Islamic banks** and windows in

**Oman** surged by 252.5% yoy to OMR 682.4mn in Feb, while financing almost doubled to OMR 1.13bn.

- **Property transactions** in **Qatar** grew by 56% yoy to QAR 26bn in Q1 this year, aided by recent launch of development projects ahead of the FIFA World Cup.
- **Bilateral trade** between **UK and Qatar** posted a 74% yoy surge to around USD 4bn in 2014 – about USD 2.5bn was derived from goods and another USD 1.5bn from services.
- **Saudi Arabia's** Ministry of Labor plans to create **jobs** for 8 million citizens over the next 20 years, as part of the strategic plan approved 4 years ago.
- The Council of Economic and Development Affairs, formed by **Saudi Arabia's** King, will help in accelerating **privatisations** of state-owned companies, according to the CEO of the Saudi Stock Exchange.
- **Saudi Arabia's CMA** published the **final rules** related to the opening up of the exchange: foreign investors can own no more than 10% of Saudi Arabia's stock market by value and a single investor can own no more than 5% of a listed firm. The Chairman of the CMA disclosed that foreigners would be allowed to buy directly into IPOs on a case-by-case basis.

## **UAE Focus**

- **UAE PMI** accelerated to 56.8 in Apr from Mar's 17-month low of 56.3, supported by faster growth of output, new orders and employment.
- The **UAE** central bank's Q1 **credit sentiment survey** revealed that while credit growth remains strong, demand for loans is moderating and credit standards for companies are tightening. Furthermore, most respondents

reported lower oil prices having no effect on demand for business loans or credit standards.

- **Dubai International Airport** received 6.74mn passengers in Mar this year, growing 7.2% yoy while in year-to-date terms, passenger traffic grew 6.8% to 19.61mn. Major expansion plans were also revealed for Dubai World Central, which is expected to receive up to 26mn passengers by 2018 from the current annual capacity of 6mn.
- **Dubai** has implemented a **virtual freight and logistic passage** to connect seaports, airports and free zones in Dubai on a single platform; this move eliminates bureaucratic processes and enables movement of cargo within 4 hours, without the need for a client to submit a cash bond or bank guarantee.
- With 679 new companies registering in **JAFZA** last year, the freezone reported a 17% yoy growth in new firms; Jafza also disclosed a 10% rise in revenues while the operating profits were up 13% to AED 1.18bn.
- **Dubai** played host to 13.2mn **international visitors** last year, up 8.2% yoy, according to the Director-General of the Dubai Department of Tourism and Commerce Marketing, who also revealed that growth was due to easier entry rules, more business conferences and an expanding entertainment and retail sector. Western Europe and other GCC nations each accounted for 22% of visitors, with South Asia and rest of MENA region accounting for 14% and 11% respectively.

### **Media Review**

***What is the sustainable oil price over the medium term?***

<http://seekingalpha.com/article/3158536-what-oil-price-is-sustainable>

***The economic history of the world in 1 minute and 30 seconds***

<http://www.economist.com/news/finance-and-economics/21623758-chinas-back>

***QE is not a one-way bet***

<http://www.bloomberg.com/news/articles/2015-05-03/draghi-starting-euro-bond-buying-turns-out-not-to-be-one-way-bet>

***The US economy probably shrank in Q1***

<http://blogs.wsj.com/economics/2015/05/05/did-the-economy-shrink-in-the-first-quarter/>

***Irrational Exuberance all over again?***

<http://www.bloomberg.com/news/articles/2015-05-06/yellen-says-equity-market-valuations-are-quite-high->

***The new forecast of the European Union in one graph***

[http://ec.europa.eu/economy\\_finance/eu/forecasts/2015\\_spring\\_forecast\\_en.htm](http://ec.europa.eu/economy_finance/eu/forecasts/2015_spring_forecast_en.htm)

***Solar energy is only 14 years away from meeting 100% of energy needs***

<http://wadhwa.com/2014/09/19/the-coming-era-of-unlimited-and-free-clean-energy/>