

Weekly Economic Commentary – May 24, 2015

Markets

US indices ended last week off record levels touched earlier in light trading as lack of market-moving economic data and corporate news reassured investors that the Federal Reserve would not raise interest rates until the second half of 2015. Emerging markets were also downbeat with regional stock indices hovering around zero change due to oil price weakness and Islamic State first attack in Saudi Arabia. The exception was Egypt whose stocks surged in response to a markedly better economic outlook and more political stability. Also European and Japanese bourses displayed perky performances. Yields on 10-year US Treasury notes remained around 2.2%. The dollar rose against major crosses in response to Yellen's hawkish remarks. Brent traded below \$66 per barrel, while West Texas Intermediate hovered under \$60. Gold had the worst week in 4, as its safe haven mystique continues to erode.

Global Developments

US/Americas:

- **Fed's President Yellen** said a interest rate hike will be appropriate this year if the economy continues to improve. However, she warned not to expect any rapid increase in rates.
- **The NAHB composite index** dropped 2 points in May to 54. Housing starts surprised on the upside in Apr, coming in 20.2% mom and 9.2% yoy.
- **Existing-home sales in the US** slowed in Apr despite posting faster sale times. Home sales fell 3.3% mom but are still up by 6.1% yoy.
- The Conference Board **index of leading indicators**

increased by 0.7% in Apr. Revised estimates show a 0.4% increase in Mar.

- **US CPI inflation** rose 0.1% mom (-0.2% yoy), in Apr compared to 0.2% in Mar.
- **Initial claims for unemployment benefits** rose from 264k to 274k. The four-week moving average slipped from 271,750 to 266,250.

Europe:

- **ECB President Mario Draghi** urged Eurozone countries to speed up the process of structural reforms, adding that shared sovereignty is an opportunity not a threat.
- **Eurozone CPI** was flat yoy in Apr, following a -0.1% yoy drop in Mar. **U.K. CPI** fell -0.1% yoy in Apr from zero in Mar, the first negative yearly inflation data since the 1960s. In mom terms inflation was 0.2% in Apr and Mar.
- **Germany's ZEW indicator of economic sentiment** fell to 41.9 in May from 53.3 in Apr, while the ZEW indicator for the current situation retreated to 65.7 from 70.2.
- The **Eurozone's current account surplus** expanded to EUR 24.9bn in Mar from EUR 14.7bn in Feb. The **Eurozone's external trade surplus** expanded in Mar to EUR 23.4bn from an upwardly revised EUR 21.4bn in Feb.
- The **UK's PPI** fell -1.7% yoy in Apr, up slightly from a -1.8% yoy decline in Mar. **German PPI** also fell -1.5% yoy (0% mom) in Apr, following a -1.7% yoy drop (0.1% mom) in Mar. confirming that deflationary pressures are hardly abating.
- The **UK retail sales index** rose 4.7% yoy in Apr after increasing a revised 4% in Mar.
- **Italy's new industrial orders** fell -0.3% mom (2.7% yoy) in Mar from 0.8% mom in Feb.
- **Spain's foreign trade** deficit narrowed to EUR 900 mn in Mar from EUR 2 bn in Feb. **Spain's new industrial orders** increased 2.4% yoy in Mar following an upwardly revised 1.3% increase in Feb.

- **Domestic lending** by **Spanish credit institutions** fell by -4.5% yoy in Mar, following a -6.2% drop in Apr.
- **French manufacturers' sentiment** was 103 in May, 1 point above Apr.
- **Russian PPI inflation** accelerated to 15% yoy (2.7% mom) in Apr from 13% in Mar.

Asia and Pacific:

- **Japan's Q1 GDP** showed the economy expanded 0.6% qoq (+2.4% yoy), up from a 0.3% gain in Q4 2014 (1.1% yoy). The economy performed better than expected as residential construction led the gains followed by private consumption and investments.
- **Japan's core machinery orders** rose 2.9% mom in Mar after in the past two months thanks to better non-manufacturing activities in response to stronger domestic demand.
- **Japan's services activity index** ended a 10-month consecutive gains streak, falling 1% mom in Mar.
- **China's HSBC Flash manufacturing PMI** fell to 49.1 in May, below the 50- point. After a slight rebound in Feb. the index has hovered in negative territory for three consecutive months.
- **FDIs into China** dropped in Apr to USD 9.6 bn after a USD 12.4 bn in Mar. This corresponds to a 10.5% yoy increase.
- **Thailand's GDP** expanded 0.3% qoq (3.0% yoy) in Q1 from 1.1% qoq (2.1% yoy) increase in Q4 2014, indicating that the recovery from political distress has stalled and the economy has lost momentum.
- **Taiwan's GDP** grew 3.4% yoy in Q1, following Q4 3.5% yoy expansion.
- **Singapore's non-oil exports** rose 2.2% yoy in Apr. following an 18.5% increase in Mar.

Bottom line: With Yellen paving the way to the first rate hike since 2008 and stock markets still robust one would be tempted

to conclude that the Great Recession is becoming a topic for historians. However the macro data remain mixed. Furthermore the easy part was to launch the unprecedented emergency monetary measures, while the real challenge is the return to normalcy, with the financial sector still fragile and the real economy gasping for oxygen.

Regional Developments

- **Egypt's** plan to impose a 10% **capital gains tax** has been frozen, but a 10% tax on stock dividends has been kept in place. The stock market surged 6.2% post-announcement.
- The **Egyptian** government has permitted the private sector to import **natural gas** using state infrastructure to ease energy shortages and support private investment in the energy sector.
- **Unemployment rate** in **Egypt** fell to 12.8% in the first three months of 2015, from 13.4% recorded during the same time a year ago. The reason cited for this drop was "improvement in economic activities".
- An official study of female workforce participation in **Jordan** revealed that women constituted 45% of the **public sector** in Q1 2015, but representation in senior-most positions stood at 7%.
- The **Saudi Development Fund** is scheduled to discuss a **Jordanian** request for a long-term, low interest **loan** worth USD 53mn, to finance the construction of a steam generation unit, at a meeting next month.
- **Kuwait's** OPEC governor expects that **global crude oil prices** are unlikely to fall in H2 2015; he also revealed that it was too early to comment the supply decision to be taken at the June OPEC meeting.
- **Oman exports** dropped from OMR 21.70b in 2013 to OMR 20.46b in 2014 due to a plunge in oil and gas prices.
- **Oman's** government has projected a capital expenditure of around OMR 2.5bn in the expansion and modernisation of

the country's **water infrastructure** over the next 25 years.

- **Real estate** transactions in Oman in the 4 months ending Apr 2015 surged ahead by 68% to OMR 1,640mn, over the same period last year.
- **Domestic credit** from **Qatar**'s banks rose 10% yoy to QAR 599bn in Q1 this year, while foreign credit was up 60% to QAR 72bn. Private sector loans grew by 1.9% mom in Apr compared to 3.1% mom growth in Mar.
- **Qatar inflation** fell to 0.9% in Apr, thanks to lower food prices. A QNB forecast places inflation at 2.5% this year, supported by population growth.
- A new law in **Qatar** will help speed up **clearance** of goods lying unclaimed or uncared for at the ports; currently, there is a six-month waiting period before these goods are auctioned off, and the law reduces this to 2-months. This rule would apply to both, goods that are imported and lying unclaimed in the precincts of the ports and/or goods that are meant for export/re-export but are not shipped within the specified time.
- **Saudi Arabia**'s **oil exports** for Mar touched the highest since Nov 2005, recording 7.898mn barrels per day (bpd), up from 7.35mn bpd in Feb and 7.474 mn bpd in Jan.
- Reuters reported, citing unnamed sources, that **Saudi Arabia turned down requests from Chinaoil and Unipecc** – the respective trading arms of PetroChina and Sinopec – for extra cargoes of crude for May and June loadings, forcing them to seek supplies from producers in West Africa, Oman and Russia. UAE and Kuwait have also turned down requests for additional cargo; Middle East crude flows to China are down over 10% since Jan – this, in spite of record Saudi exports and Chinese demand.
- **Non-oil exports** in **Saudi Arabia** were down 19.4% yoy to SAR 15.7bn in Mar, while imports increased by 2.8% to SAR 55.6bn.
- **Inflation** in **Saudi Arabia** remained flat at 2% this Apr, the lowest since at least Sep 2012 when the current data

series began.

- The D&B Business Optimism Survey for **Saudi Arabia**, with the composite index at 13 in Q2 (Q1: 16; Q2 2014: 49) and highlights lower optimism levels of both the hydrocarbon and non-hydrocarbon sectors for Q2 2015.
- **Saudi Arabia** plans to invest SAR 525bn in the transport sector alone within the next 10 years, according to the governor of Saudi Arabian General Investment Authority.
- **Japan-GCC bilateral trade** reached USD 164.76bn in 2014, down 3.82% yoy, largely a result of an estimated 4.28% average fall in the price of crude oils that Japan imported from the GCC.
- The World Economic Forum's "**Travel and Tourism Competitiveness** report 2015" shows UAE leading the region, ranking 24th globally, and supported by air transport infrastructure (3rd), effective branding campaigns (1st), and liberalization of its visa regime (30th).
- The EIU's **Global Food Security Index** 2015 revealed that 2/3rds of the surveyed 109 countries reported improvements, due to investment in agriculture and infrastructure, falling global food prices and economic growth in most regions. Egypt, Myanmar, Azerbaijan, the Democratic Republic of Congo and Togo showed the most progress.

UAE Focus

- **Dubai World Trade Centre** (DWTC) was given a free zone status last week; this would further enhance the attraction of Dubai as a destination for MICE events, not only in the region but also internationally. Business tourism is a major part of total tourism in Dubai (DWTC welcomed 2.2 million trade visitors in 2013 alone): this decision is likely to lead to a surge in passenger traffic into Dubai (which is already among the top 5 busiest airports globally) in addition to raising

revenues in related services (hotel, restaurants, retail etc.).

- **UAE's airports** welcomed 37.84mn people in Jan-Apr (Dubai: 27.5mn; Abu Dhabi: 7.4mn), up 17.3% yoy, according to the General Civil Aviation Authority.
- **Emirates NBD** listed USD 951mn of bonds on Nasdaq Dubai, making the group the largest issuer of conventional bonds on Dubai's exchanges, with a total nominal value of USD 4.78bn from its eight listings.
- The Institute of International Finance, in its latest report, applauds the **UAE banking sector's** strong initial financing positions, asset quality, liquidity and capital adequacy levels and projects banks' overall health to remain strong given the backdrop of the resilient UAE economy as well.
- **Dubai's luxury property buyers** come primarily from the UK, Germany, Russia and CIS, and the Gulf region, according to Christie's International Real Estate, with average spending ranging between AED 11-18mn. The city also ranks as the most popular city for second home purchases among global high net worth individuals (HNWIs).

Media Review

Yellen on future rate hikes

<http://www.theguardian.com/business/2015/may/22/janet-yellen-federal-reserve-raise-interest-rates-appropriate>

Sovereign Wealth Funds and Their Investments in Private Equity

<https://www.preqin.com/docs/newsletters/pe/Preqin-Private-Equity-Spotlight-May-2015.pdf>

The China-Central Asia-Europe Link

<http://www.businessinsider.com/central-asia-economy-is-heating-up-2015-5>

The Global Economy in Two Slides

<http://www.bloomberg.com/news/articles/2015-03-16/the-entire-global-economy-in-two-big-slides>