

# Weekly Economic Commentary – Jun 7, 2015

## Markets

Stock markets are entering the summer period with a dose of caution. US equities adopted a cautious tone with the S&P 500 recording a weekly loss. European bourses suffered worse losses, while the Nikkei 225 shined touching a 15-year high this week and is up more than 40% since Oct. An uptick in inflation expectations spread havoc on European bond markets, already edgy for the impasse on the bailout of Greece. That sparked a global bond market selloff, with 10-year German bund yields doubling from 0.49% to 0.97% on Thurs before easing back to 0.83%. In the US, Treasuries fell after the upbeat jobs report while the dollar hit a 13-year high against the yen, also gaining over all major crosses and emerging market currencies. Oil prices fell substantially after the OPEC decided to maintain its output. The price of Brent crude oil and WTI oil futures fell to roughly \$62 and \$58 per barrel, respectively. Gold took a hit, dropping to a 3-month low. Major Gulf stock markets edged down in early trade on Thurs after oil prices declined and on US announcement that it was investigating Qatar's winning bid for the 2022 soccer World Cup.

## Global Developments

### **US/Americas:**

- **US non-farm payroll** increased 280k in May, the largest gain since Dec, versus 223k in Apr, with the unemployment rate rising marginally to 5.5% and the number of discouraged workers falling from 756K in Apr to 563K in May. Wages gained 0.3% mom and 2.3% yoy. Overall, an upbeat report.

- **Initial claims for unemployment benefits** dropped 8,000 to a seasonally adjusted 276,000, the 13th straight week below the 300,000 threshold, indicating a strengthening labor market. The four-week moving average increased by 2,750 to 274,750. Continues claims were at their lowest since 2000.
- **The US ISM manufacturing** index rose to 52.8 in May (vs. consensus 52.0), from 51.5 in Apr. Among the major components, production (-1.5 to 54.5) declined, but new orders (+2.3 to 55.8) and employment (+3.4 to 51.7) improved. Prices paid jumped +9.0 to 49.5 a nearly neutral level. The ISM for services fell to 55.7 in May, its lowest point in a year, from 57.8 in April.
- **The US Fed Beige Book** was in line with April's edition, with 7 of the 12 districts reporting an expansion at a "modest" or "moderate" rate, down from 8 in Apr. Employment conditions were a little better and wages rose slightly.
- **US factory orders** declined -0.4% mom in Apr (vs. consensus -0.1%), as nondurable goods orders posted only a small gain. Growth in core capital goods was revised down to +0.5%.
- **US core PCE inflation** (the Fed's preferred inflation measure) rose 0.11% mom in Apr almost the same as 0.13% in Mar, pushing the yoy figure down to 1.2%. In 2015 core PCE inflation has averaged only 1.3%, and 1.5% over the past five years.
- **US nonfarm productivity** fell -3.1% qoq in Q1 (+0.3% yoy) after a -1.9% in Q4. Unit labor costs grew at 6.7%, however over the past year they advanced only 1.8%.
- **Brazil's central bank** raised rates by 50bps to 13.75%, as expected. Inflation remains rampant despite recession.

## Europe:

- **The ECB** left rates unchanged and stuck to its planned pace on QE. President Draghi warned that 'we should get used to periods of higher volatility' with interest rates on the floor.
- **Germany's estimates for HCPI inflation** point to a +0.7% yoy in May after +0.3% in Apr, with core inflation almost flat.
- Standard & Poor's upgraded **Ireland's sovereign rating** for a second time in six months to A+ as its economic recovery gains momentum.
- **Greece** became the first nation to defer payment (to the amount of USD 339mn) to the IMF since the 1980s. While some officials have reported progress in Greece's debt deal negotiations, Merkel was more pessimistic, stating "we're still far from reaching a conclusion".

## **Asia and Pacific:**

- **Nominal wage growth in Japan** picked up to +0.9% yoy in Apr vs 0.0% in Mar, thanks to a 14.9% yoy increase one-off items. Basic wages increased 0.6% yoy in Apr, against +0.2% in Mar. The hopes by the government of a substantial boost to wages so far have not translated into reality.
- The **Reserve Bank of India** cut its official policy rate by 25bp to 7.25% to prop up growth amid benign inflationary outlook.
- **Australia's Q1 GDP** rose 0.9% qoq (+2.3% yoy) from 0.5% in Q2. The economy still has excess capacity as domestic demand growth was flat and expanded just 0.2% in the last 9 months.
- **Australia's retail sales** remained flat mom in Apr vis à vis the 0.2% gain in Mar. **Australia's foreign deficit** widened to AUD 3.9 bn in Apr, from AUD 1.2 bn in Mar, due to the effect of weaker Chinese demand and AUD devaluation.
- **South Korea's final GDP estimate** for Q1 shows an

expansion of 0.8% unchanged from Q4 2014 gain. The yoy rate was 2.5% from 2.7% last quarter.

- **South Korea's core inflation rate** grew to 0.5% yoy in May up from 0.4% a month earlier.
- **Taiwan's consumer price index** fell 0.7% yoy in May after dropping 0.8% in April, mainly due to lower commodity prices.

**Bottom line:** This week the US data releases took the limelight. Data had mostly surprised on the downside so far this year, against expectations of a solid pick up. Private consumption has stagnated, despite lower energy prices, with retail sales below consensus for five straight months. For this reason the strength of the labor market data injected a much-needed dose of optimism. Other data were less cheerful. The PCE and factory orders do not offer evidence of a solid turnaround. The ISM reports were only moderately optimistic hinting at improving demand, pretty much in line with the anecdotic evidence gathered in the Beige Book. The global economy remains fragile and it was not by happenstance that the International Monetary Fund asserted that the Fed "should wait until next year to raise interest rates".

### Regional Developments

- The government of **Egypt's** first **international bond sale** in five years sold USD 1.5bn of 10-year bonds at a yield of 6%, while drawing in excess of USD 4.5bn of investor orders.
- **Egypt PMI** rose to 49.9 in May (Apr: 49.8), remaining below the 50-mark which signals a growth in activity, led by a stagnation in new orders.
- In a bid to increase trading activity and liquidity, the **Egypt bourse** will move to **next-day settlement** of trades on June 11.
- **Money supply** in **Egypt** was up 16.5% yoy to EGP 1.7trn as of end-Apr, revealed central bank statistics.
- **Egypt-Germany** bilateral trade is estimated at USD 4.4bn,

according to the Egyptian Trade Minister.

- The **IMF** has reached an agreement for a USD 833mn **loan** to **Iraq**, to support the country's finances, and the program will still be reviewed by the IMF's board next month.
- **Jordan's** finance minister revealed that the country plans to **issue** USD 1.5bn US-backed bonds in June and raise a further USD 500mn in Q4 2015 to meet its financing needs and to retire a USD 750bn bond coming due at the end of the year.
- A recent IMF paper found that **Jordan** currently **imports 96.1% of its energy needs**, compared with 94.1% in 2000 and that the percentage of energy imports to GDP jumped to 16.2% in 2013, from just 7.5% in 2000.
- **Inflation** in **Kuwait** stood at 3.4% in Apr (Mar: 3.3%), mainly due to a rise in local food inflation; while core inflation slowed, it remained relatively high at 3.7%.
- **Passenger activity** at the **Beirut** airport increased 7% yoy to 545,151 in May this year and commercial flights were up 5%.
- **Lebanon's** finance ministry will be able to exchange USD 1bn in **Eurobonds** even if Parliament fails to convene to authorize the issuance of the foreign-currency-denominated bond, stated *The Daily Star*, quoting an insider.
- **Oman nominal GDP** increased 4.6% during 2014, compared to the 2.4% growth registered the previous year, according to preliminary data released by the Central Bank of Oman. Non-hydrocarbon sector activity was up 10.1% last year while the oil sector posted a marginal decline of 2.4%.
- **Oman's natural gas** production and imports rose 5.5% to 12,402mn cubic metres (MNCM) for the first four months of this year, from 11,750 MNCM for the same period last year.
- **Qatar's exports** were down 36% yoy and 4.8% mom to QAR 25.5bn in Apr while imports were reported at QAR 10.6bn (+19.5% yoy, 2.2% mom). US was the leading country of

origin of Qatar's imports, at 12.4% of imports, followed by UAE (8.8%) and China (8.5%).

- **Qatar tourism sector's** contribution to GDP was QAR 28bn or 4% in 2014, with the total number of tourists reaching 2.82mn, reported *Al Sharq*, citing Qatar Tourism Authority data.
- The **Qatar-Tunisia Friendship Fund** supported the creation of more than 1000 projects, resulting in about 5600 direct **jobs** and 14,200 indirect jobs, revealed the Foreign Minister.
- **Saudi Arabia** is expected to grow at 3.5% this year (2016: 2.7%), according to estimates released by the IMF following the conclusion of its Article IV mission.
- The IMF predicts the **Saudi** government will run a fiscal deficit of around 20% of GDP this year, equivalent to roughly USD 150bn and also expects that the country is likely to resume issuing government bonds to support its finances.
- **PMI** in **Saudi Arabia** was at a 12-month low of 57.0 in May (Apr: 58.3), with output growth down to a four-month low of 63.4 points and new orders, at 62.7, the lowest since Sep 2011.
- Shares in five listed **Saudi Arabian** companies – Jabal Omar Development, Taiba Holding Co, Knowledge Economic City, National Shipping Co of Saudi Arabia (Bahri), and Makkah Construction & Development Co – will not be open to **investment by foreigners**, as per the exchange's website.
- **Saudi Arabia's commodity exports** dropped by 8.9% to SAR 1.28 trillion in 2014, largely as a result of the fall in oil exports by 11.6% to SAR 1.06 trillion.
- IHS Aerospace, Defence & Security forecasts **Saudi Arabian defence-specific spending** to increase to around USD 60bn a year by 2020, from its present USD 49bn, making it the fifth-largest spender in the world by that time.
- Forecast for **projects planned and underway in the GCC** in

2015 is USD 172bn – the highest on record to date, according to Deloitte's report on the GCC construction sector.

### **UAE Focus**

- **UAE** is expected to record a **consolidated fiscal deficit** of 2.3% of GDP in 2015 from a 5.0% surplus last year, as per IMF estimates, given lower oil prices. Gradual fiscal consolidation will move balance back into the surplus territory next year – 2.2%.
- **UAE PMI** edged down to 56.4 points in May (Apr: 56.8) as new orders growth expanded at a slower pace (60.9 in May vs. 62.1 in Apr) while orders rose to a 3-month high of 62.8.
- The **UAE central bank** announced a set of new regulations on **liquidity risk management** for the banking sector as part of compliance requirements for the Basel III: according to these rules, banks are mandated to keep a minimum level of liquid assets to meet short term liquidity stress; banks should also structure their funding profile to limit the impact of long term market disruptions.
- The **UAE** aims to increase the contribution of the **manufacturing sector** to overall GDP from 11% to 25% by 2025, according to the Minister of Economy. He also revealed that the new investment law would support this plan.
- KPMG estimates reveal that the **UAE's food and beverages sector** is set to grow by around 4% annually to USD 13.2bn in 2018, from USD 11.3bn in 2014, supported by new outlets and strong tourist inflow.
- **Dubai** has jumped to the **4th most popular global destination**, from 5th place last year, according to the MasterCard Global Destination Cities Index. The list is topped by London, and followed by Bangkok and Paris.

### **Media Review**

### **The shale war and big oil**

<http://www.bloomberg.com/news/articles/2015-06-03/opec-s-shale-war-leaves-big-oil-companies-as-unexpected-casualty>

### **Econo-fiction: A brief history of the energy industry from 2015 to 2040**

<http://blog.ihs.com/q14-the-rivalry-era-a-brief-history-of-the-energy-industry-from-2015-to-2040>

### **SWFs: 6 predictions over the next 10 years**

<http://laburnum-consulting.co.uk/sovereign-wealth-funds-the-next-10-years/>

### **The global economy chartbook by HSBC**

<https://www.research.hsbc.com/midas/Res/RDV?p=pdf&key=sFAH6ybn s7&ao=29&n=464009.PDF>

### **Adia takes back 10% of its funds from asset managers**

[http://www.zawya.com/story/Abu\\_Dhabis\\_ADIA\\_manages\\_more\\_of\\_its\\_billions\\_inhouse-TR20150602nL5N0YN3LCX2/](http://www.zawya.com/story/Abu_Dhabis_ADIA_manages_more_of_its_billions_inhouse-TR20150602nL5N0YN3LCX2/)

### **Adia's 20 year return**

<http://www.swfinstitute.org/swf-article/adias-20-year-return-from-2014-creeps-upward/>