

# Weekly Economic Commentary – Jun 14, 2015

## Markets

Stock markets were in a subdued mood throughout the week waiting for clarity on Greece and pondering concerns on China stock market, despite additional evidence of a rebound for the US economy. Fresh volatility in the bond prices (with the Bund 10y yield above 1%) added to the dim picture. Emerging and regional markets were also downbeat, with the exception of UAE, notwithstanding the resilience of the oil prices amid intense daily oscillations. In currency markets the yen jumped up after the revised data on GDP and the euro was remarkably upbeat in the face of tensions. Gold prices remained essentially stable.

## Global Developments

### **US/Americas:**

- **US retail sales** increased by 1.2% mom in May. Gains were led by gasoline and car purchases. Sales excluding those two components were up 0.7 %.
- **US wholesale inventories** rose by 0.4% mom in Apr after an upwardly revised 0.2% gain in Mar. **Sales** increased by 1.6% after revised Mar sales from 0.1% to -0.3%.
- **University of Michigan consumer sentiment** was at 94.6 in June, up from 90.7 in May. Both the current conditions (+6.0pt to 106.8) and future expectations (+2.6pt to 86.8) components strengthened. Median expected changes in income over the next year scored a post-recession record of 2.2%.
- **The US Federal government** ran a deficit of USD 82.4bn in May, compared with USD 130bn a year earlier. Revenues rose 6.3% to USD 212bn, whereas spending dipped 10.6% to

USD 294.8 bn.

- **The US PPI** rose 0.5% mom. Energy prices increased 5.9%, pushing up 1.3% the PPI for final goods.
- **Initial claims for US unemployment insurance** were little changed, rising to 279k from a revised 277k the week before. This marks the 14th consecutive week in which claims were less than 300k.
- **Inflation in Brazil** inched up to 8.5% in May from 8.2% in Apr.

## Europe:

- **Greek Finance Minister Varoufakis** expressed confidence that European partners will not let the country leave the eurozone, as the negotiations are essentially stalled.
- The **euro zone's real GDP** grew 0.4% qoq (1% yoy) in Q1 the same gain as in Q4.
- **Euro zone industrial production** increased 0.1% mom (0.8% yoy) in Apr, following a revised -0.4% mom decrease (2.1% yoy) in Mar. Among individual countries, **UK IP** rose 0.4% mom in Apr after climbing 0.5% in Mar; **France IP** fell 0.9% mom in Apr, following a 0% growth in Mar, **German IP** rose 0.9% mom in Apr, following 0.4% decrease in Mar and **Italy's IP** disappointed in Apr, falling by -0.3% mom, after 0.5% increase in Mar.
- **France's CPI** was up 0.3% yoy in May as a result of weak prices of energy products and **Spain's CPI** fell -0.2% yoy in May, the smallest drop since Oct, following a -0.6% decline in Apr.
- The **UK trade balance for goods** was in deficit by GBP 8.6 bn in Apr, the smallest in more than a year, following a revised GBP 10.7 bn shortfall in Mar driven by stronger exports.
- The **UK Halifax house price index** fell -0.1% mom in May, following a 1.6% rise in Apr.
- **Germany's trade surplus** widened to EUR 22.3 bn in Apr

from a revised EUR 19.4 bn in Mar. The surplus also expanded from Apr 2014 when it reached EUR 17.5 bn.

- **Turkey's Q1 GDP** growth surprised on the upside, 5.3% qoq ann and 2.3% yoy, thanks to an acceleration in net exports, while industrial output contribution remained relatively weak.

## **Asia and Pacific:**

- **Japan's Q1 GDP** final estimate showed the economy expanded at a perky 1.1% qoq (3.5% yoy) after a 0.3% gain in Q4.
- **Japan's s.a. consumer confidence index** saw a minor downward change to 41.4 in May from Apr's 41.5 reading.  
**Japan's services activity index** fell -0.2% in Apr. Following a 1% decline in Mar.
- **Japan's machinery orders** rose 3.8% mom in Apr, up from 2.9% gain in Mar. Export competitiveness and manufacturing orders benefited from the weaker yen.
- **China's consumer price index** rose 1.2% yoy in May down from 1.5% in Apr. Lower food inflation, energy costs and housing slump continue to put a lid on inflation.
- **China's M2 supply** gained a paltry 10.8% yoy in May, up from 10.1% in Apr.
- **China's fixed assets investment** grew 11.4% yoy in May, slowing pace from Apr's 12% rise.
- **Bank of Korea** lowered interest rates to a record low 1.5% in June, down from 1.75% in May due to the dim economic outlook.
- **India's industrial production** leaped 4.1% yoy in April from 2.1% in May well above market expectations.

**Bottom line:** The macro data flow reserved few surprises with the exception of the Japanese GDP that points to a more solid long term recovery. China came again under scrutiny due the lackluster economic performance and the bubble in its A-share stock market. This situation led investors to pull out huge sums from Chinese equity funds, spreading the contagion

worldwide: last week emerging market funds suffered outflows for USD 9.3bn, the largest since the financial crisis, of which USD 7.1bn were withdrawn from Chinese equity funds.

### Regional Developments

- **Egypt**'s government has approved the proposal to set up a **sovereign investment fund** to encourage diversification and support sustainable economic and social development. The fund, named Amlak, will act as the state's investment arm. No further details were given about the fund including when it would begin operations or the amount of money it would manage.
- Annual urban and core **inflation** were up in **Egypt** in May, with the former rising to a five-year peak of 13.1% thanks to food prices, while the latter came in at 8.14% (Apr: 11% and 7.19% respectively).
- **Egypt**'s Financial Supervisory Authority proposes to introduce **covered bonds and non-rated bonds** to expand financing options for real estate developers and SMEs; currently, over 90% of bond issues in Egypt are by the government.
- **Egypt**'s foreign currency **reserves** touched USD19.56bn in end-May, from USD 20.525bn the month before, according to the central bank.
- **Egypt** posted a **current account deficit** of USD 4.1bn in Jan-Mar this year, down from a surplus USD 322.9bn in the same period last year, as a result of widening trade deficit and a pause in aid payments from the Gulf nations.
- **Chinese investments in Egypt**, since 1970 till now, are estimated at USD 477mn, revealed the head of the economic and trade office in China's Egyptian embassy.
- **Iraq** reduced its **oil output growth targets**, claiming it would raise production by almost 60% by 2020 at best versus previous calls to triple output. The revised targets are also due to delayed investments, red tape,

infrastructure bottlenecks and a fight against Islamist militants.

- **Jordan's** government seeks to secure **external financing** worth USD 3.4bn through grants and loans between Apr 2015 and Mar 2016; according to the IMF, the value of loans from external lenders is estimated to be around USD 2.6bn, while confirmed grants from Arab and foreign donors are worth USD 800mn.
- **Lebanon** is expected to save between USD 1.0-1.5bn on its **energy bill** annually, according to the central bank governor.
- **Oman's total oil and condensates production** grew 1.53% mom to 30.22mn barrels in May; the average daily production stood at around 974,990 barrels.
- **Oman's inflation** declined 0.4% yoy in May and 0.04% mom.
- **Qatar** lowered its 2015 economic **growth** forecast to 7.3% from the projected 7.7% six months ago, disclosed the Ministry of Development Planning and Statistics, and also expects **budget** to swing to a deficit next year, at about 4.9% of GDP.
- **Qatar's crude oil production** is expected to rebound, averaging 709k barrels per day (bpd) in 2015, according to the Qatar National Bank. Crude production had declined to 635k bpd in Apr 2015 from 708k bpd in Mar.
- **Inflation** in **Saudi Arabia** rose to 2.1% yoy in May, from Apr's 2.0%, with prices of housing and utilities up 3.1%, while food and beverage prices rose 1.4%.
- The governor of SAMA revealed that **Saudi Arabia's** total **spending on development projects** during the past five years reached SAR 4.4 trillion, with 30% of the amount going to capital projects.
- **Saudi Arabia's** National Commercial Bank projects real **GDP growth** of 3.4% for 2015 due mainly to the non-oil sector maintaining last year's pace of around 5%.
- **World Bank** is calling for the **GCC** to find "a new way to distribute their petroleum revenues" while applauding the **subsidy reform** measures undertaken so far; it

estimates that the decline in crude prices could cost the GCC USD 215bn, or 14% of their combined GDP this year.

- Total **private wealth** in the **GCC** has doubled since 2010, from USD 1.1 trillion to USD 2.2 trillion for an overall compound annual growth rate of 17.5%, according to a Strategy& report. The report reveals that there are between 1.5-1.6mn wealthy households in the GCC, with about 44% of the private wealth resident in Saudi Arabia, followed by the UAE (30%).

### **UAE Focus**

- **Abu Dhabi**'s new decree to regulate the property market includes regulations that all real estate developments must be registered with the government and that for unfinished projects, payments by buyers will be held in a separate, ring-fenced account, while brokers will not be allowed to represent more than one party in a single transaction. It was however not mentioned when these regulations would be implemented.
- The Emirates NBD **Dubai Economy Tracker** edged up to 57.6 in May from Apr's 18-month low of 57.2, with construction the key driver of growth (May: 62.7, Apr: 59.6) amidst acceleration in new business growth from the 37-month low recorded in April.
- The **UAE Banking law** is currently being revised, with discussions leading towards giving the central bank a role in determining monetary policy – to provide more independence to the central bank; the existing law provides the central bank control over interest rates while the currency is pegged to the USD and all policy decisions need to be signed off by the President.
- **DIFC** aims to triple the number of financial firms by 2024 – to more than 1000 from 362 last year, according to the governor. This would also increase the contribution to GDP to 18% from the 6% currently.

- The **airport sector** is undergoing major improvements in the **UAE** with about USD 120bn investments in place for airport development, revealed the latest newsletter from the Dubai Civil Aviation Authority, quoting the Chairman of Dubai Airports; furthermore, it stated that aviation sector's contribution to Dubai's economy will increase to USD 88bn by 2030.
- A Markaz report found that India, Pakistan and Philippines topped the list of highest **remittances** from the **UAE**, with its citizens transferring USD 12.6bn, USD 4.1bn and USD 3.4bn respectively in 2014. The remaining major expatriates remitted around USD 6.3bn, The report disclosed that overall, remittances by the eight expatriate groups reached more than USD 26.6bn in 2014, which is 91% of the USD 29bn total fund outflows from the UAE.
- Data released by Network International showed a 10.2% yoy increase in **UAE card spending** to AED 34.3bn in Jan-May this year (*Network International covers about 60% of the UAE market for e-commerce and point of sale transactions*). In terms of foreign spending, US-based cards were on top, accounting for about 20% of total foreign spending in the UAE, followed by Saudi and the UK, while Russian spending declined 52% in the first five months of the year.

### **Media Review**

#### ***Charts of the week***

<http://qz.com/426910/the-10-most-important-economic-charts-of-the-week-from-the-americas-asia-and-europe/>

#### ***Greek Suicide?***

<http://www.project-syndicate.org/commentary/greek-default-political-suicide-by-anatole-kaletsky-2015-06>

<http://www.project-syndicate.org/commentary/greece-creditor-demands-by-joseph-e-stiglitz-2015-06>

***The rich world's wriggle room has fallen by about a third since 2007: Economist***

<http://www.economist.com/blogs/graphicdetail/2015/06/daily-chart-9>

**Bahrain's growing fiscal squeeze**

[http://www.zawya.com/story/Bahrain's\\_growing\\_fiscal\\_squeeze-ZAWYA20150610070809/](http://www.zawya.com/story/Bahrain's_growing_fiscal_squeeze-ZAWYA20150610070809/)

**GCC & the Yemen conflict**

[http://www.zawya.com/story/Will\\_GCC\\_pay\\_economic\\_toll\\_to\\_Yemens\\_conflict-ZAWYA20150608070643/](http://www.zawya.com/story/Will_GCC_pay_economic_toll_to_Yemens_conflict-ZAWYA20150608070643/)